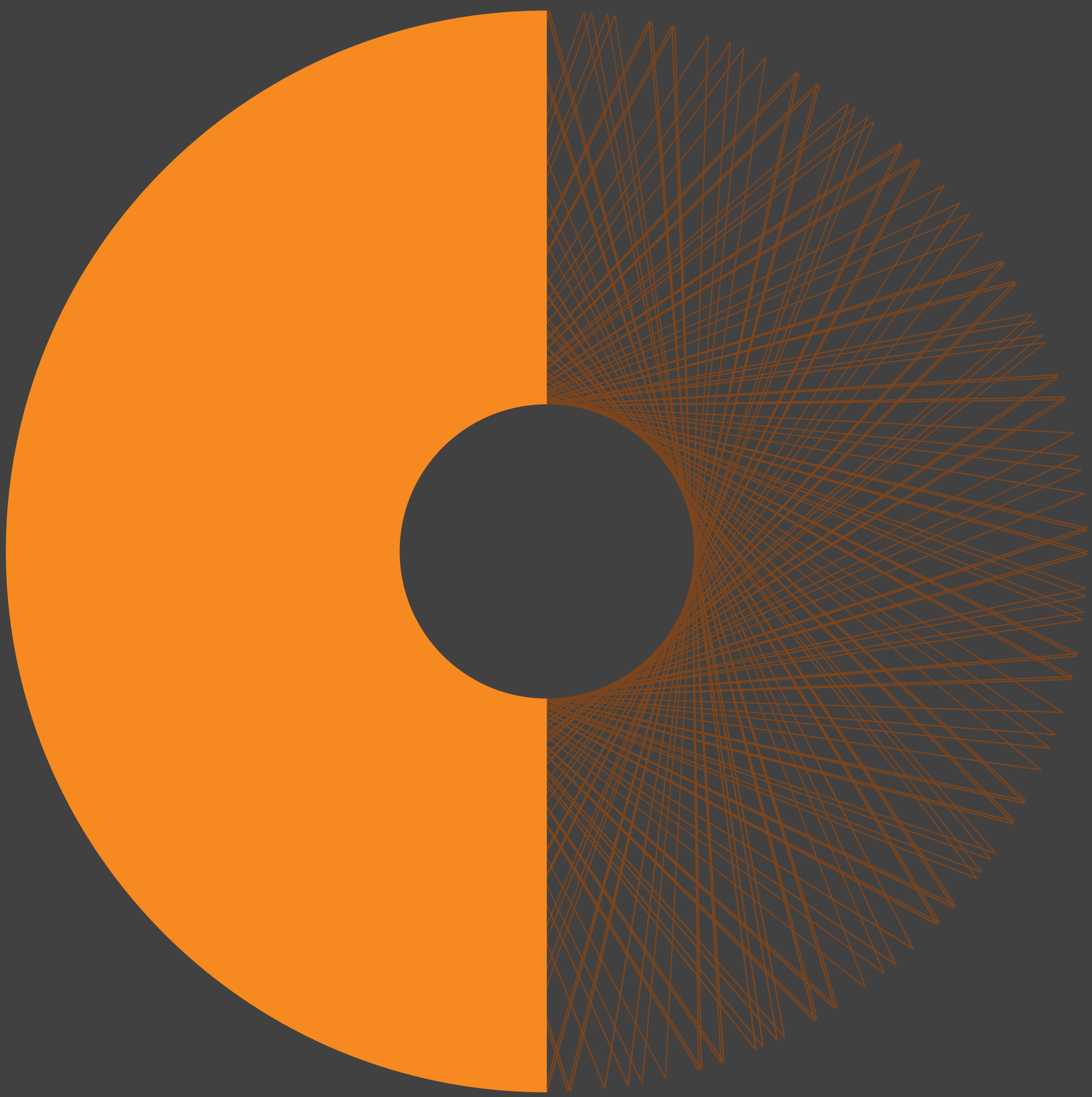
Sound Principle. Complex Reality.

An independent survey discussing the real impact of global changes in Know Your Customer (KYC) regulation on **CORPORATIONS**



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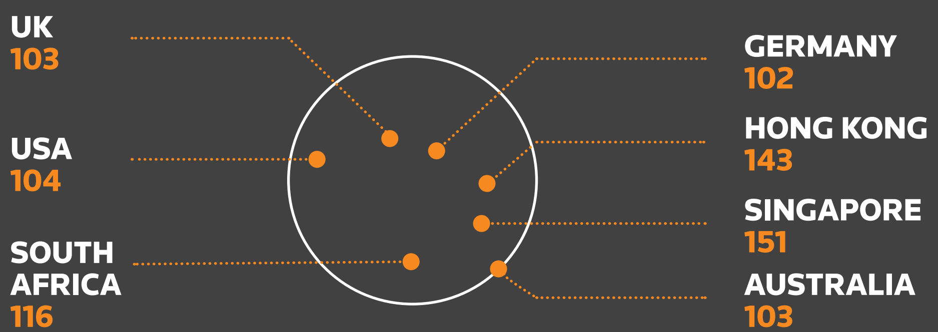
ABOUT THE SURVEY

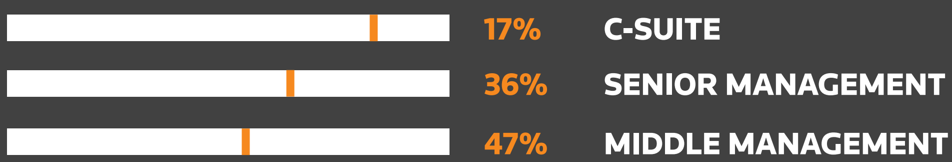
An independent survey discussing the real impact of global changes in KYC regulation on corporates.

This report is based on research commissioned by Thomson Reuters and conducted online by an independent third party in January and February 2016. A total of 822 decision makers at non-financial corporations completed the survey. All of them were involved in KYC-related activities within their organizations across Singapore, Hong Kong, South Africa, USA, UK, Australia and Germany.

Respondents by region



Seniority

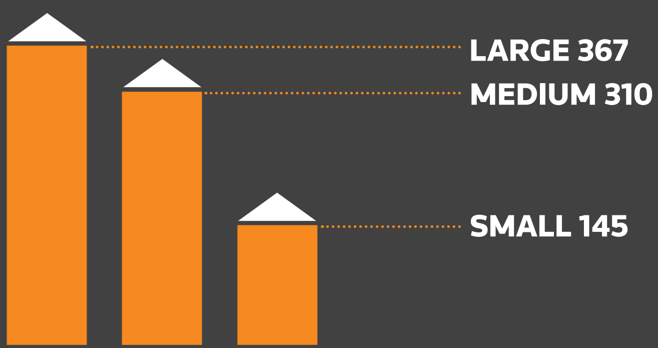


Role in organization

- Treasury
- Risk management
- Compliance
- Finance director
- Financial control
- Procurement
- Corporate secretary
- General counsel
- Other financial decision-making role

Size of business

NB This report also draws upon the findings of further research carried out by the same independent third party, using the same methodology, but focused instead on financial institutions' experience of KYC processes.



KEY FINDINGS

01. BANKING RELATIONSHIPS 5

Multiple banking relationships are magnifying corporates' KYC burden.

- 11 banking relationships on average per corporate globally.
- 9 banking relationships on average per corporate regionally, with mid-sized corporates having an average of 7 and smaller companies 4 banking relationships.

02. KYC CHALLENGES 8

A lack of common standards at financial institutions is negatively impacting corporates.

- 89% of corporates have not had a good KYC experience.
- 13% changed banks as a result.

03. CLIENT ONBOARDING 12

KYC procedures are greatly lengthening client onboarding.

- 27% of corporates reported it could take over 3 months for a bank to onboard them, and 9% reported it could take 4 months or longer.
- Corporates are contacted an average of 8 times by banks during the onboarding process.

04. REPORTING MATERIAL CHANGES 15

Despite the increasing requirements and responsibility on corporates to report material changes, this is not always happening.

- 69% have not passed on all changes to their banks.

05. REGULATORY CHANGE 19

As banks respond to new regulations, the KYC workload steps up.

- 56% of respondents say changes to regulatory requirements drive the amount of time they spend on KYC.

Changing regulation means corporates are getting frequent and often inconsistent Know Your Customer (KYC) requests from their banks. Our survey quantifies the real world impact of this development.

A brief history

In the past, only basic KYC checks were performed on new banking clients. The globalization of banking and the financial crisis of 2008 put an end to this relatively relaxed approach. Driving this change since the early 1990s has been the Financial Action Task Force (FATF), established as a G7 initiative to develop policies to combat money laundering. FATF has been the prime mover behind the adoption of a risk-based approach (RBA) designed to move compliance on from a rigid, 'one size fits all' methodology to a more pragmatic style. The welcome principle behind this is that banks and other financial institutions (FIs) can direct their resources more efficiently, so that the greatest risks receive the highest attention.

The less welcome side-effect has been the allowance for banks (and their national regulators) to interpret KYC policies and procedures as they see fit, leaving corporates struggling to keep up with different requests from their various banking partners. As well as this lack of a common KYC standard, corporates also face the consequences of continuing changes to KYC rules.

The 2012 FATF Recommendations set new guidelines for the information that legal entities, including corporations, should hold and maintain about themselves. These Recommendations are already filtering into new regulations across the globe, with significant consequences. Following shortly is the next round of FATF mutual evaluations which assess a country's compliance with the FATF Recommendations.

The real impact

While it is well known anecdotally that some corporates have found the current KYC process frustrating, it is important to accurately measure the problem. Our survey highlights the true scale of the KYC burden corporates face globally, with 89% saying they have not had a good experience, leading to 13% of them to change banks as a result. Adding to their burden is the fact that the original regulations, some developed in a pre-digital age, can involve the submission of personal and legal documents, making security a key issue for one third of survey respondents.

Things can only get better?

In the short term, corporates believe the KYC compliance burden will continue to rise as they deal with new challenges such as the need to proactively update their financial institutions with material changes. In the medium term, recognition of the problem is driving investment in improving KYC processes and increasing the uptake of third-party solutions, specifically designed to manage these challenges. One example is Thomson Reuters Org ID™, which facilitates the process around KYC due diligence.

BANKING RELATIONSHIPS

The more banking relationships, the bigger the KYC burden.

Each banking relationship can pose a different KYC challenge.

An average of 11 global banking relationships.

30% of UK and 26% of US respondents said they had ten or more banking relationships in their regions.

Satisfying each bank's KYC requirements is not simply a case of repeating the same exercise.

FATF's risk-based approach to compliance means that KYC requests will vary according to bank and geography. That means each additional banking relationship can pose a different KYC challenge, adding complexity, duration and cost to the process.

Number of banking relationships

Corporates have an average of nine regional banking relationships, according to survey respondents. Widening the picture to include global relationships, the average number rose to 11. All of these will require corporates to supply KYC information according to the individual procedures of the financial institution they are doing business with.

A closer look at the survey results uncovered some greater extremes, with 10% of UK respondents citing 50+ banking relationships at a global level. At a regional level, 30% of UK and 26% of US respondents said they had ten or more banking relationships.

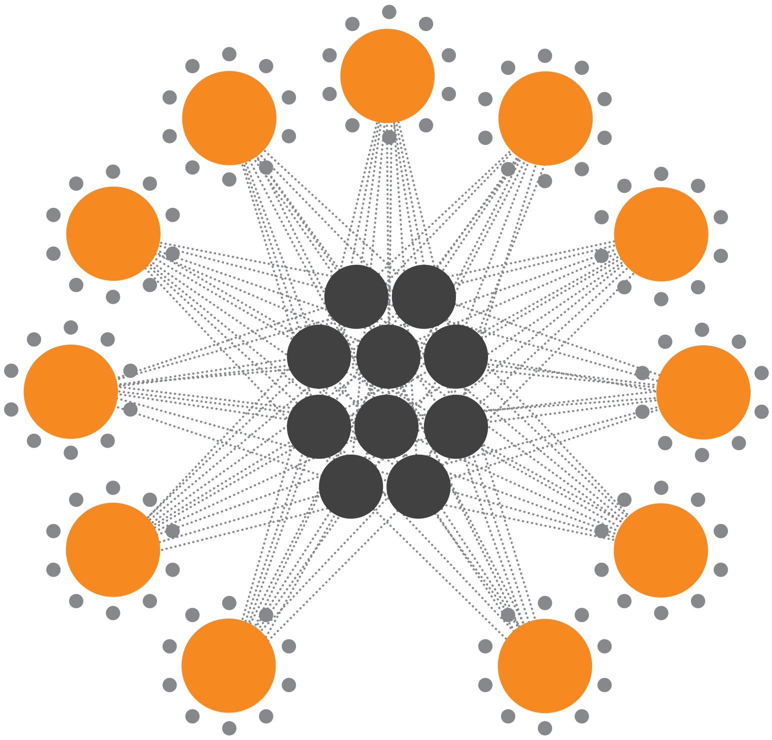
Larger companies generally have more banking relationships than SMEs, further magnifying their KYC challenges.

UNDER THE MICROSCOPE – WHAT LEVEL OF DETAIL ARE CORPORATES EXPECTED TO PROVIDE?

To take one example, the documentation required to open a single account with a US bank could include: the passports of all signatories; the names, addresses and dates of birth of all directors; utility bills and bank statements for all authorized signatories; documentation regarding US tax status (W8-BEN); certified articles of association; certified articles of incorporation; confirmation of EMIR status; confirmation of Dodd-Frank exemption; and board authorizations.

Bearing in mind that each bank may require variations of the above, along with additional information when new products are used and/or national regulations change, the problem grows exponentially.

The escalating document challenge for corporates – a hypothetical document request scenario.



ASSUME ON AVERAGE
10
DOCUMENTS TO
OPEN ONE ACCOUNT ARE REQUESTED

+

ON AVERAGE
11
BANKING RELATIONSHIPS

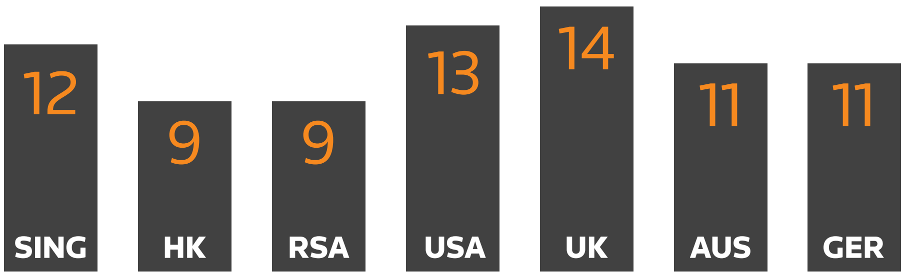
RESULT=

SENDING
DOCUMENTS
110x
TO DIFFERENT
BANKS

RESULTS BY REGION

How many banking relationships do you have at a GLOBAL LEVEL (including in your region) that require you to supply KYC information and documents?

Global banking relationships (mean)



"Many corporates with multiple banking relationships are scratching their heads and wondering what is going on. They are being touched regularly and inconsistently by banks requesting similar, but not the same, pieces of information. This is contrary to the ethos of the FATF and local regulation, and a direct result of varying degrees of interpretation by financial institutions. This interpretation can disproportionately increase the burden on corporates – even the very large ones."

Neil Jeans, Head of Policy and Regulation, Client Onboarding and KYC Solutions, Thomson Reuters

KYC CHALLENGES

Lack of a common standard is creating inconsistency and inefficiency.

Inconsistent requests for information and documents were cited as a challenge by 34% respondents.

Corporations are suffering, with 89% saying they did not have a good experience of KYC.

A big issue for 40% of corporates was dealing with many different people within the bank during KYC processes.

Corporates believe the KYC process is highly inefficient.

One of the major reasons is the lack of a common standard, with 47% reporting that different banks ask for different documents. This highlights the way that the risk-based approach (RBA), which encourages banks to adapt their processes to suit their risks, can create greater inconsistency for corporates.

This does not, however, explain the apparent lack of internal bank efficiency, with 40% of respondents saying they had to deal with many different people within an individual bank during the KYC process. Inconsistent requests for information and documents were cited by 34% of respondents, suggesting banks' internal processes are not fully aligned. Perhaps not surprisingly, this is adding to the time corporates are spending on KYC activities, with 63% of total respondents saying this has increased over the previous 12 months – which includes 21% who say it has increased significantly.

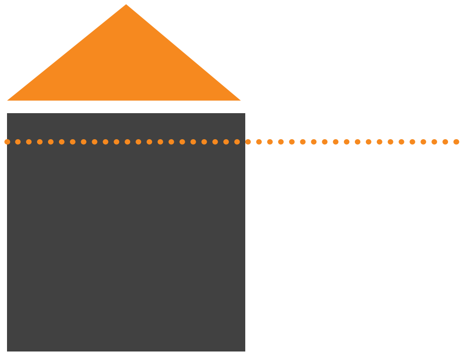
Feeling the impact at the highest level

More than half the survey respondents were at C-suite or senior management level and carrying out key finance and risk functions within their businesses. The increasing KYC burden is therefore taking up time that would otherwise be spent on more productive tasks. There is, however, a positive: top-level awareness of the problem is driving change.

A sizeable 28% of C-suite respondents said they were focusing time on the adoption of a new approach/solution to managing KYC document requests. This suggests that finding ways of tackling the issue is high on the boardroom agenda.

28% of C-suite respondents

said they were focusing time on the adoption of a new approach/solution to managing KYC document requests.



87% of small companies say they did not have a good experience of KYC.

One size fits all?

The 2012 FATF Recommendations aim to create a more pragmatic approach to KYC, encouraging banks to focus more tightly on the areas of their operations most vulnerable to money laundering and other risks. So it might be the case that smaller companies (not as complicated and likely to operate in less high-risk jurisdictions) would have a slightly easier ride in terms of KYC processes. The survey results, however, show small companies are suffering almost as much, with 87% saying they did not have a good experience of KYC, which is only just below the overall average of 89%.

Spotlight on security

One third of corporates felt security was a key concern during the KYC process. Banks require extensive documentation and, from passports of company directors to beneficial ownership details, these documents are often of a personal and confidential nature. Physical documents can get lost en route, even when sent by special delivery and secure APIs directly into banking systems, and email is not always secure. KYC managed services, such as Thomson Reuters Org ID, are stepping in to solve this problem by enabling quick and easy sharing of client identity documents via secure web-based portals and APIs directly into banking systems.

What types of challenges has your organization experienced when it has been asked to provide KYC documents and related information to the financial organizations it works with for compliance?

47% Had different banks ask for different documents and information

40% Dealt with many different people within the bank during the process

34% Received inconsistent requests for information and documents

33% Had concerns about security around who was viewing personal documents

25% Are asked for documents that are already available online

22% Highlighted the delays and paperwork involved cost them time and resources

22% Said account opening took longer than anticipated

22% Did not understand why they were asked to supply the documents requested

13% Had to change bank as the KYC checks were taking too long

11% Said they generally have a good experience with this process

IS A STANDARDIZED SOLUTION ALREADY IN SIGHT?

“If corporates could upload whatever client information their banks needed, and enable their banks to have secure access whenever they needed it, many of their KYC challenges could be greatly reduced.

That’s the driving force behind the creation of KYC managed services such as Thomson Reuters Org ID, which provides a secure portal to distribute KYC information as well as update and monitor KYC records. Instead of each financial institution managing its own client documentation collection, a third-party provider acts as a central and secure data repository and conduit. The information is uploaded and can then be distributed to selected and approved FIs. The corporate has full visibility and control over who can access and view the confidential information and documents are held according to strict data and information security requirements. Banks can effectively self-serve, checking the portal when necessary and requiring little more than confirmation that the information is up to date.

The result is a huge reduction in time and cost, allowing the company secretary and treasury team to get on with what really matters: running their business efficiently.”

Steve Pulley, Global Managing Director, Risk Managed Services, Thomson Reuters

CLIENT ONBOARDING

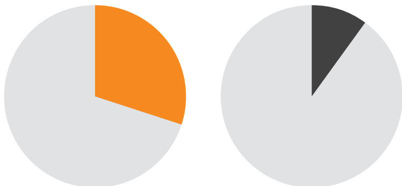
Lengthy, complex and time consuming onboarding processes are the unfortunate reality for corporates.

89% of corporate respondents had experienced onboarding times of up to three months.

Banks are unwittingly duplicating KYC requests.

By the end of 2016 the average time for corporates to be onboarded will have increased from 28 days to 34 days.

Banks are understandably keen on building strong relationships with their clients, but when it comes to onboarding new customers, the service seems less than ideal.



27% of corporates reported it could take over 3 months for a bank to onboard them, and 9% reported it could take 4 months or longer.

Taking time

These time periods are long enough, but hide a more worrying picture – 89% of corporate respondents had experienced onboarding times of up to three months and one in ten had experienced a journey that took up to four months or longer.

It is important to note here that this is for just one onboarding process. The average number of banking relationships for corporates is eleven, which means the demands multiply proportionately.

Number of contacts

On average, our survey respondents indicated they were contacted eight times during each onboarding process, with UK companies seeing this rise to 11. Contact was with a number of different bank departments, from credit and front office to legal and compliance. Interestingly, this information does not tally with the banks themselves, who when surveyed separately recorded four average contacts per corporate across fewer different bank departments. This suggests that a lack of central co-ordination may mean banks are unwittingly duplicating KYC requests and further adding to the corporates' workload. It also reveals that banks are not fully aware of the scale of the problem for corporates, because they do not know how often they are contacting their clients. Without such awareness, it is difficult to see how the banks can successfully address the problem.

Looking ahead

Corporates anticipate that time to onboard will increase by 20% in the next 12 months. This means that by the end of 2016 their average onboarding time will have increased from 28 days to 34 days. One of the drivers for this is likely to be changing regulation. This is backed up by Singapore's experience with recent legislative changes, which have helped to drive their average longest onboarding time to 51 days, well above the all-country average of 43. Interestingly, Australia, which also saw regulation recently introduced, came in below average at 38 days. This could indicate that financial institutions in Australia have not reacted as quickly in implementing the required changes.

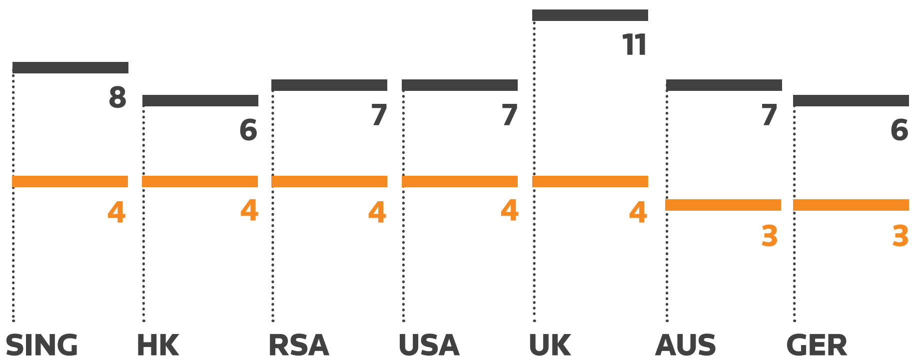
How many times on average have you been contacted (telephone, email, etc.) during the onboarding process?

Figures reflect past 12 months

Interestingly banks contradicted this:

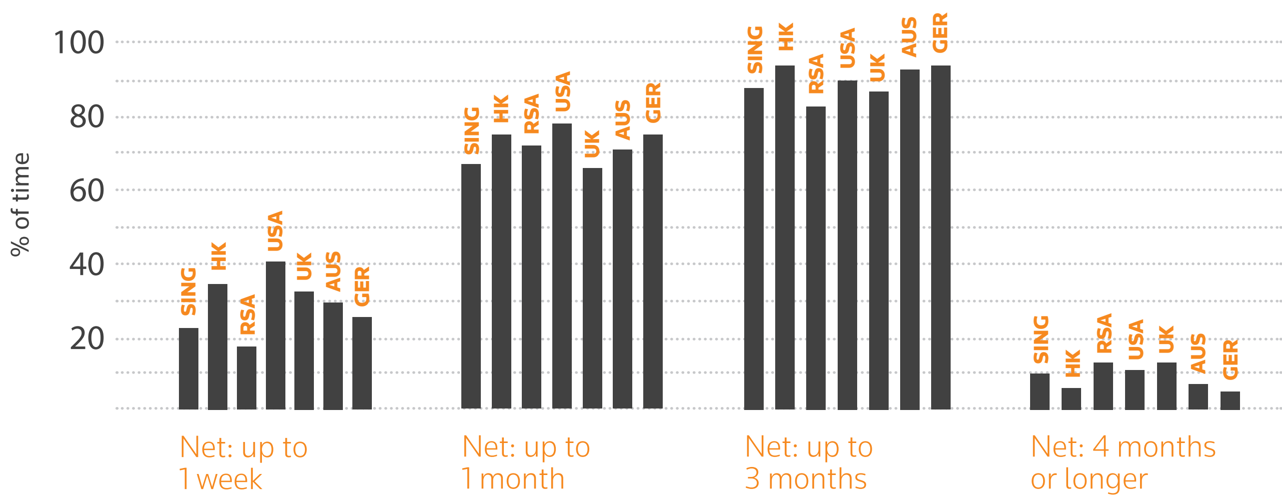
Corporates' response

FIs' response



What is the longest time the process has ever taken for your organization to be onboarded as a new client by a financial services organization?

Figures reflect past 12 months



REPORTING
MATERIAL CHANGES

Corporates are experiencing significant levels of change, but not all of it is being reported to banks.

The onus is on the corporate to report the changes.

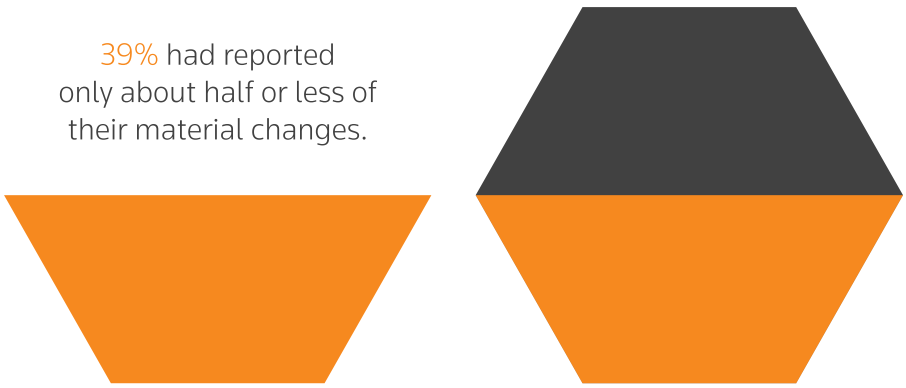
69% had not made their financial institutions aware of all the changes.

A key aspect of the 2012 FATF Recommendations is the requirement that corporations must update their bank about any organizational revisions which change their identity information, including who owns or controls them, and could impact their risk rating as a customer.

This means their KYC responsibilities go well beyond the onboarding stage and continue throughout the banking relationship. Although the onus is on the corporate to report the changes, banks could assist by making the updating process easier and continuously monitoring for ongoing changes.

Material changes

Three quarters of corporates surveyed had a material change to their organization during the preceding 24 months and the average number during that period was six. However, 69% had not made their financial institutions aware of all the changes and 39% had reported only about half or less of their changes. Given that most FIs only undertake periodic reviews of client records, this suggests that banks may have out of date information on their clients, weakening their risk management and compliance processes.



Adding to the time burden

One of the barriers for corporates may be the sheer amount of time updating this information consumes. On average corporations are spending 27 days a year bringing their banks and other FIs up to date about material changes. This is set to rise, with corporate survey respondents forecasting it will increase by just over a quarter in 2016, adding another week to the time burden for corporates.

On average corporations are spending **27 days a year** bringing their banks and other FIs up to date about material changes.

LIVING IN A MATERIAL WORLD

How the 2012 FATF Recommendations on material changes are being brought into force around the world.

Australia was one of the first countries to move its national law into alignment with the FATF Recommendations. As such its regulators require the collection, monitoring and maintenance of information about beneficial owners, and details of the management and organizational structure (including names and positions held). These requirements extend to all legal entities and effectively mean that they must maintain their beneficial ownership information and make it available when required.

In Europe a revised – and more stringent – set of requirements to prevent money laundering and the financing of terrorism were published on 5 June 2015 in the form of the EU's Fourth Money Laundering Directive (4MLD). At the time, member states were given until 26 June 2017 to implement 4MLD into their national laws. However, this already tight deadline has now been significantly shortened as the European Commission has amended its requirement to implement the directive by no later than the end of 2016. This directive has key requirements around holding legal entity identity data, including beneficial ownership for companies. Member states must ensure that corporate or legal entities established within their territory hold adequate, accurate and current information on their beneficial ownership, and that the necessary information can be accessed in a timely manner by competent authorities and by 'obliged entities'.

With developments in the US gathering pace and the introduction of proposed new rules expected soon, and other countries throughout the world preparing for the next round of FATF mutual evaluations (which assess a country's compliance with the FATF Recommendations), the scene is set for more change ahead.

Have you had a material change to any of the below pieces of information about your organization over the past 24 months?

Directors or controllers of your organization

SING 30%
HK 25%
RSA 33%
USA 24%
UK 36%
AUS 19%
GER 14%
Average = 26%

Address or location of business operations

SING 29%
HK 35%
RSA 19%
USA 21%
UK 29%
AUS 28%
GER 11%
Average = 25%

Ownership or ultimate beneficial owners

SING 31%
HK 25%
RSA 16%
USA 29%
UK 32%
AUS 20%
GER 29%
Average = 26%

The names of your legal entities

SING 24%
HK 22%
RSA 16%
USA 25%
UK 28%
AUS 31%
GER 28%
Average = 25%

Private/public (listed) status

SING 20%
HK 11%
RSA 7%
USA 20%
UK 33%
AUS 14%
GER 13%
Average = 17%

Regulatory status

SING 27%
HK 12%
RSA 18%
USA 19%
UK 26%
AUS 18%
GER 12%
Average = 19%

Merger or other corporate action

SING 17%
HK 7%
RSA 15%
USA 19%
UK 16%
AUS 18%
GER 18%
Average = 15%

Other material change

SING 9%
HK 4%
RSA 7%
USA 3%
UK 11%
AUS 7%
GER 5%
Average = 6%

We have not had any material changes

SING 20%
HK 25%
RSA 29%
USA 26%
UK 19%
AUS 24%
GER 32%
Average = 25%

REGULATORY CHANGE

When a country is implementing the 2012 FATF Recommendations it will drive changes to KYC requirements and this will inevitably impact corporates.

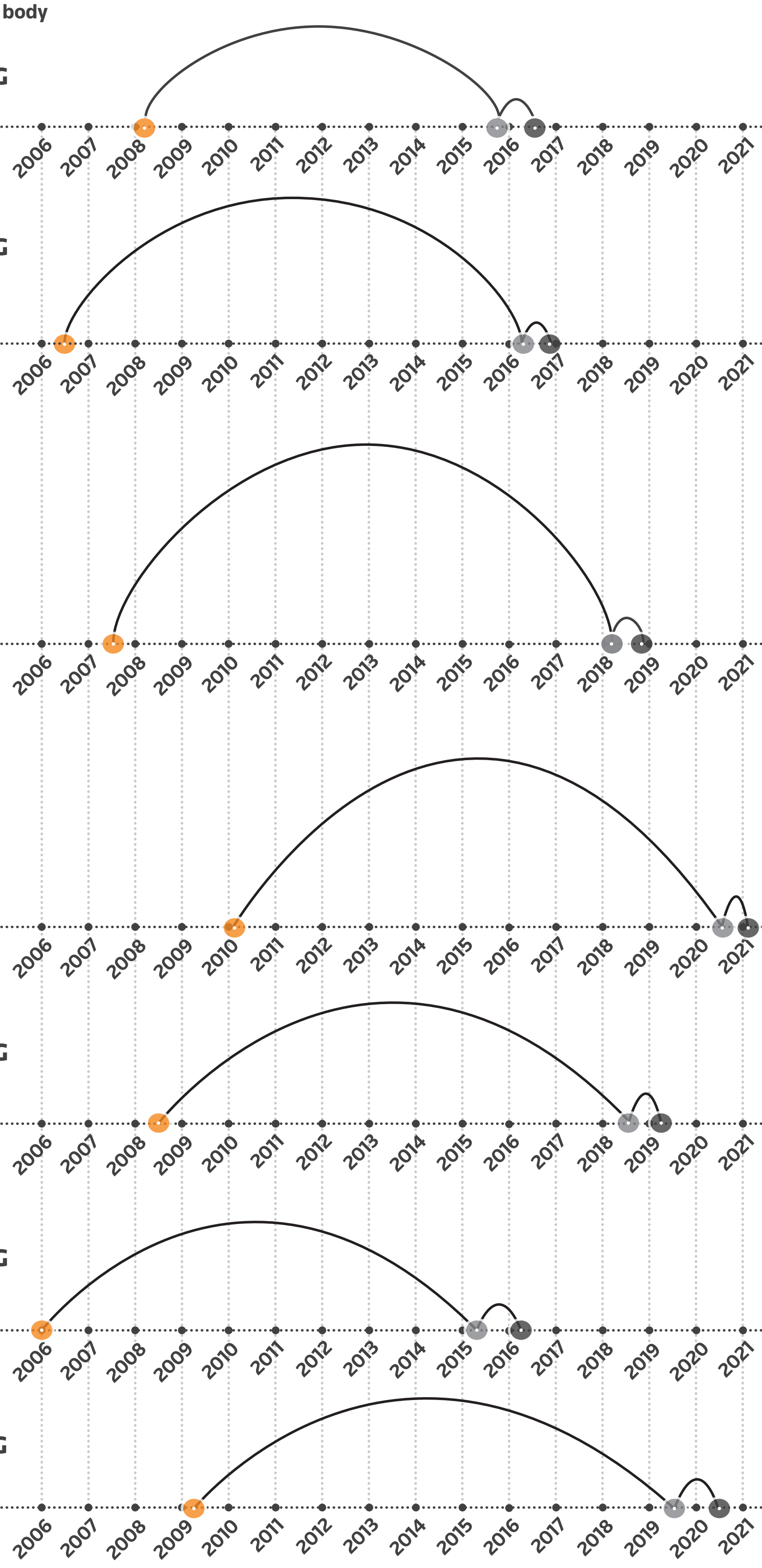
As the regulatory timeline shows, the problem is likely to get worse before it gets better.

Changes in regulation mean banks need to refresh their customer records to remain compliant.

The average corporate spends 23 days supplying additional regulatory information.

Legislative changes and mutual evaluations

- Last FATF mutual evaluation
- Possible FATF onsite period
- Possible FATF plenary discussion



Country and assessment body	Legislation
SING FATF-APG	Monetary Authority of Singapore MAS 626 (revised in April 2015)
USA FATF-APG	Banking Secrecy Act PATRIOT Act Federal Financial Institutions Examination Council - Bank Secrecy Act / Anti-Money Laundering InfoBase Financial Crimes Enforcement Network (FinCEN)
UK FATF	The Money Laundering Regulations 2007 (amended 2012) DIRECTIVE (EU) 2015/849 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (the 4th Directive that countries are required to implement by December 2016)
GER FATF	Money Laundering Act (Geldwäschegesetz – GwG), 2008 last amendment 2013 DIRECTIVE (EU) 2015/849 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (the 4th Directive that countries are required to implement by December 2016)
HK FATF-APG	Hong Kong Monetary Authority (HKMA) and Securities Futures Commission (SFC) Guidelines on Anti-Money Laundering and Counter-Terrorist Financing - Revised March 2015
AUS FATF-APG	Anti-Money Laundering and Counter-Terrorism Financing Act 2006 Anti-Money laundering and Counter-Terrorism Financing Rules - Instrument 2007 (No.1) and amendments. revised CDD Rules June 2014
RSA FATF-ESAAMLG	Financial Intelligence Financial Act 2012

Changing regulation was identified as the single biggest factor driving the amount of time spent by corporates on fulfilling KYC requirements.

It was selected by 56% of total respondents, but ranked higher in Singapore (64%) and Australia (57%). These two countries have recently brought in KYC legislation, supporting the view that changes in rules and regulations are deepening the burden for corporates. As the regulatory timeline shows, this process is set to continue as more regions bring in new regulations, suggesting the problem is likely to get worse before it gets better. Other drivers cited were changes within the corporate's own organization (45%), changes within the financial institution (44%) and the adoption of a new solution/approach to managing KYC documents (24%).

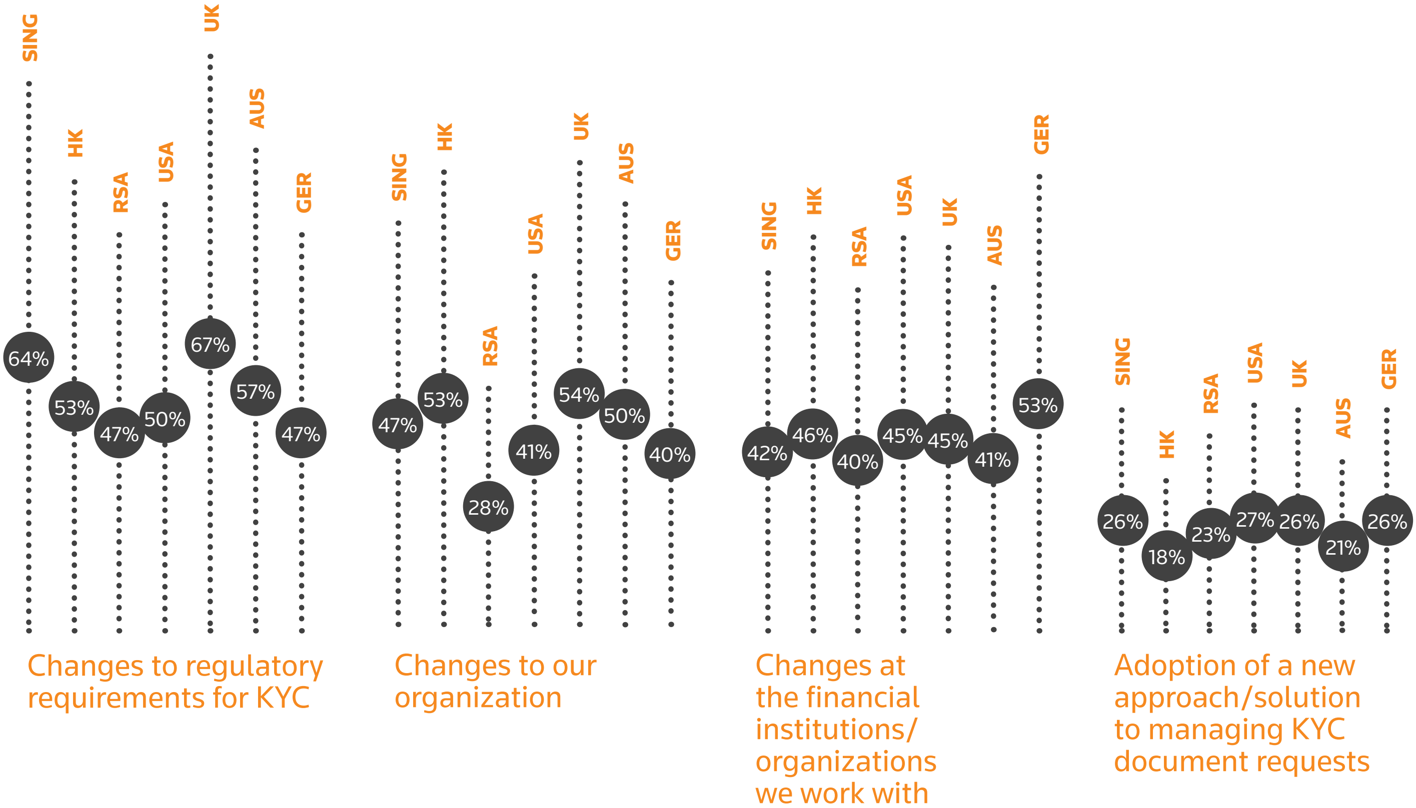
Requiring additional information

Looking at the impact in more detail, changes in regulation mean banks need to refresh their customer records to remain compliant. As a result corporates are being asked to supply more detail, adding to their workload.

More time required

Half of all corporates surveyed said they currently spend more time and attention supplying additional documents for regulatory purposes than they did over the previous 12 months. This adds up to a significant call on resources, with the average corporate spending 23 days supplying additional regulatory information. Given the regulatory roadmap shown here, it is hardly surprising they forecast that this figure will rise.

What is driving the amount of time that your organization spends on fulfilling KYC requirements for financial institutions?



Time spent in 2015 (last 12 months)	Time expected to increase by	Prediction for 2016
Onboarding = 28 days	**20%**	**34 days**
Updating material change = 27 days	**26%**	**34 days**

Despite their diverse locations, the differing sizes of their organizations and their varied roles within them, the 822 decision makers who took part in our survey had a single clear message: **KYC compliance is a big issue and it is getting more complex.**

Adding together the average time the corporate devotes to KYC for onboarding, material changes and responding to regulatory updates, the total is 78 days. That is nearly four months' worth of working days that could be spent a great deal more productively.

Our survey makes clear not only the scale of the problem but its causes: current KYC processes are inconsistent, inefficient and time consuming – yet corporates expect this situation to get worse. They forecast average onboarding times will rise by 20% in the year ahead.

However, there are also reasons for optimism

With C-suite and other senior managers having to deal with KYC issues personally, there can be little doubt it is high on the boardroom agenda. This, combined with the greater amounts of time and money being dedicated to addressing the challenge, is creating momentum for change.

One key positive is that banks are starting to accept electronic documents, with some corporates insisting that it is written into the contract when they start new banking relationships. This will not only help to relieve some of the security concerns around supplying original documents, but will also further clear the way for KYC solutions, such as Thomson Reuters Org ID KYC Managed Service, to offer support. Once a corporate's data has been entered or uploaded to a secure portal, financial institutions can access the information without the need to interact directly with the corporate's senior management. In addition, if a corporate leads with using a KYC utility, then they only have to upload and maintain one set of KYC documents from a secure central location, eliminating the need to keep responding to sporadic or inconsistent requests. And when material changes happen within an organization, the corporate can update this information just once within a portal and distribute to their banks easily and quickly.

Although our survey shows the challenge is significant, there is also a real opportunity for forward-thinking organizations to take a proactive approach to the regulatory environment. By adopting the cutting-edge technology that is already available to streamline KYC processes, they will find themselves ahead of the curve and can gain a competitive advantage.

Research Methodology

Research was undertaken online in January and February 2016, with 772 decision makers in financial institutions (global banks, regional banks, investment banks and investment managers) and 822 decision managers across a representative selection of industries in SMEs and large corporates. A minimum of 100 respondents were sourced from financial institutions and corporates in the UK, Germany, South Africa, USA, Australia, Hong Kong and Singapore, in order to conduct a robust global and in-country comparison of opinion from the two perspectives around the topic of KYC. Respondents were able to complete the survey in either English, German or Traditional Chinese.

The general convention for rounding has been undertaken, so not all sums will add up to 100%.

For any inquiries on the research methodology,
please contact dan.healy@fticonsulting.com

ACCELERATI**ONBOARDING**

Thomson Reuters is the leading source of intelligent information for the world's businesses and professionals, providing customers with competitive advantage. Intelligent information is a unique synthesis of human intelligence, industry expertise and innovative technology that provides decision makers with the knowledge to act, enabling them to make better decisions faster. For corporate treasurers it means access to services and solutions, designed to help you drive down risk and cost while giving you tools to simplify processes and power global growth opportunities.

Thomson Reuters Org ID is a global KYC solution – designed with corporate treasury teams in mind – that enables accelerated onboarding to streamline account opening and simplify the ongoing maintenance of KYC documentation.

Eliminate the duplicative work in providing due diligence documents to multiple counterparties by uploading, storing, maintaining and distributing one set of documents from a single, secure web-based portal at no cost. As your business evolves, know your responsibility to meet ever-changing regulatory requirements. Right now.

For more information visit:
risk.tr.com/OrgID

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