

## Important Regulatory changes in Governance, Risk Management and Internal Control

**Deloitte can help in gap and impact analysis, process reviews and support in development of internal documentation**

### **Outsourcing Arrangements**

Specific provisions for outsourcing arrangements and related risk management, identification of critical and important function and review all existing agreements

**Deloitte can help in process and agreement reviews and support in development of internal framework**

### **Security Risk Management**

Expectations from regulators on how all financial institutions should manage internal and external ICT and security risks that they are exposed to.

### **Internal Governance / Internal Control Framework**

Updates in FCMC Regulation – in force as of 10 December, 2019. Implementation **deadline 30 June, 2020.**

Requirements for Management Bodies and Committees, Strategy, Conduct and Conflict of Interest standards implementation, regular effectiveness assessment

**Deloitte can help in review of internal governance and control framework, perform gap analysis and prepare methodology for compliance with new requirements**

### **Suitability Assessment for Management Bodies and Key Function Holders**

New FCMC Regulation – in force as of 10 December, 2019. Implementation **deadline 10 June, 2020.**

Requirements for tasks, responsibilities and organization of the management body, key function holders and committees

Initial and regular internal assessment of suitability

**Deloitte can help in analysis of current processes and prepare methodology for compliance with new requirements**

## Outsourcing Arrangements

### European Banking Authority (EBA) Guidelines on Outsourcing arrangements (EBA/GL/2019/02)

#### What's new

Guidelines specify which arrangements with third parties are to be considered as outsourcing and differentiate between requirements **on critical and important outsourcing arrangements and other outsourcing arrangements.**

Outsourcing of critical and important functions has a higher **impact on the institutions' risk profile.** Hence, the requirements are stricter as compared to the requirements for other less risky outsourcing arrangements.

#### How can Deloitte help



**Gap analysis and drafting processes and policies/procedures**



**Definition of outsourcing and important/critical function**



**Identification of necessary changes in contracts and support in development of exit strategies**



**Review of contracts register**



**Identification of necessary changes in IT solution**

#### Applicable to:

- **Credit institutions, Investment firms, E-money institutions, Payment service providers**

#### Effective Date:

- **As of 30 September, 2019 to all new outsourcing agreements**
- **All existing agreements shall be reviewed by 31 December, 2021**
- **EBA requirements implementation in Latvian local regulations is expected by end of 2020**

## Key Operational Challenges



### Assessment of outsourcing and criticality of functions

- **Reassessment of all agreements** on the matter of outsourcing definition
- Identification of **critical and important** functions in the context of outsourcing



### Outsourcing process

- **Pre-agreement analysis** - risk assessment and due diligence
- Outsourcing **contract content**
- Regular **supervision/monitoring** of services subject to outsourcing
- **Notification to Regulators** about critical and important outsourcing
- Exit strategy for each outsourcing



### Risk management and framework

- Risk management and management systems in the context of outsourcing
- Outsourcing policy
- Conflicts of Interest identification and mitigation
- Business continuity plans

## Internal Governance / Internal Control System

- EBA/GL/2017/11 (Guidelines on internal governance)
- FCMC Regulation on establishment of internal control system (in Latvian: *FKTK Iekšējās kontroles sistēmas izveides noteikumi*)

### What's new

Sound internal governance arrangements are fundamental for financial institutions. EBA GL and FCMC Regulation on establishment of internal control system stating governance provisions and specifying the **tasks, responsibilities and organization of the management bodies, governance, risk management and internal control** systems set-up.

### How can Deloitte help



**Review Governance structure and internal regulations, prepare gap analysis and identify key regulatory risks**



**Draft processes, methodology and internal procedures**



**Assessment of conduct and ethics standards, conflict of interest process and support in changes implementation**



**Analysis of development strategy**



**Support in assessment of internal control system effectiveness**



**Assist in establishment of Council level Committees**

### Applicable to:

- Credit institutions, Investment firms

### Effective Date:

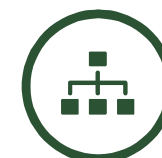
- EBA GL - as of 30 June, 2018
- Updates in FCMC Regulation (binding to Latvia registered Credit institutions and Investment firms) – in force as of 10 December, 2019. Implementation deadline - 30 June, 2020

## Key Operational Challenges



### Development strategy and risk strategy

- New elements to **enhance risk culture** in company



### Organizational structure and reporting lines

- Responsibilities, duties and ownership division for significant risk management
- Whistleblowing process
- Requirements for the process of new financial services or significant changes of existing services/products (NPAPs)



### Conflict of interest and Conduct

- Corporate values and **professional conduct and ethics** standards implementation
- Conflict of interest **policies and procedures** for all institution and separately for Board and Council members and for key function holders



### Council level committees

- Requirements for **composition of committees** and members



### Management bodies (Board and Council)

- Requirements for composition and responsibilities
- **Independent council members** to ensure best practice principles of corporate governance standard



### Regular assessments

- Effectiveness of **internal control system (annual)**
- Effectiveness of **management bodies and committees**

## Suitability Assessment for Management Bodies and Key Function Holders / Fit and Proper

- EBA/GL/2017/12 (Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU)
- New FCMC Regulation on Board and Council member and key function holder suitability assessment (In Latvian: *Valdes un padomes locekļu un personu, kuras pilda pamatfunkcijas, piemērotības novērtēšanas normatīvie noteikumi*)

### What's new

EBA Guidelines and FCMC Regulation provide **common criteria to assess the individual and collective knowledge, skills and experience** of members of the management body as well as the **good reputation, honesty and integrity, and independence of mind**. Regulations specified criteria for initial and regular assessment.

### How can Deloitte help



**Perform analysis of current structure, processes and internal regulations, prepare gap analysis and identify key regulatory risks**



**Draft processes, methodology and internal procedures on suitability assessment**



**Support in initial and regular suitability assessment process**

### Applicable to:

- Credit institutions, Investment firms

### Effective Date:

- EBA GL - as of 30 June 2018
- New FCMC Regulation (binding to Latvia registered Credit institutions and Investment firms) – in force as of 10 December, 2019. Implementation deadline – 10 June, 2020

## Key Operational Challenges



### Definition of key function holders

- Updated **definition**
- Need to **identify additional key function holders** in organization



### Process for suitability assessment

- Specified process and principles
- Requirement for **initial and regular assessment**
- **Individual and collective** suitability principles



### Suitability assessment criteria

- Reputation, compliance to corporate values and professional conduct and ethics standards
- **Independence of mind** of Board and Council members, as well as criteria for identification of independent council members
- Knowledge, skills and experience
- Committing sufficient time to performing duties
- Following **diversity policy**

# Information and Communication Technology (ICT) and Security Risk Management

EBA/GL/2019/04 on ICT and security risk management

## What's new

Expectations on how financial institutions should manage internal and external ICT and security risks that they are exposed to. Areas covered: **ICT governance and strategy, ICT risk management framework, information security, ICT operations management, ICT project and change management, and business continuity management.** The guidelines are principle-based and flexible enough to facilitate their application to all the relevant institutions in the sector.

## How can Deloitte help



**Perform analysis of ICT and security risk management strategy and operating model, prepare gap analysis based on your business strategy**



**Draft ICT and security risk management policies and standards**



**Review contracts with third party providers against security requirements**



**Support in updates of response and recovery plans**

## Applicable to:

- **Credit institutions, Investment firms, Payment Service Providers**

## Effective Date:

- **As of 30 June 2020**



## Governance and strategy

- Requirements for internal governance and internal control frameworks within the organization
- **Aligning ICT strategies with the overall business strategy**
- Ensuring that **staff is trained** to new standards



## Framework

- Assigning responsibility for managing and overseeing to an independent and objective control function
- Identifying and **mapping core business functions, support processes and information assets** based on the business criticality of each function
- Conducting risk assessments



## Third party providers

- Ensuring that **contracts meet security-related objectives**, such as minimum cybersecurity requirements
- Sound **business continuity management** processes
- Business impact analyses
- Short- and long-term **response and recovery plans**

## Our expert team and qualifications



### Andris Liepins

Director | Risk Advisory

☎ +371 29 287 567  
✉ aliepins@deloittece.com

Andris is Financial Sector Industry (FSI) Advisory lead in the Baltic States. During more than 10 years of professional experience Andris has acquired in-depth expertise across reporting, regulatory and business areas of FSI.

Prior to joining Deloitte in 2016, Andris has acquired more than 7 year experience with Bloomberg Lp, London across broad spectrum of financial markets, including data governance and reporting efficiency. Andris has strong expertise in FSI industry risk management covering strategic, operational, regulatory, financial and market risks.



### Natālija Zaiceva

Manager | Risk Advisory

☎ +371 20262911  
✉ nzaiceva@deloittece.com

Natālija is a manager in Risk Advisory department with focus on Governance, Risk and Compliance areas. Natalija has over 13 years of experience in Bank sector, including audit, monitoring, and advice in Governance, Risk and Compliance areas; providing assurance to the Board and Council on the level of compliance; communication with regulators, participation in projects and review of internal framework; facilitation of conduct, conflict of interest and anti-corruption trainings.

Natalija has a strong expertise in internal governance, outsourcing, remuneration, conduct, ethics, anti-corruption, conflict of interest, data protection, AML/CFT/Sanctions areas. For the previous 9 years, Natālija has been working in one of the leading Banks in Latvia.



### Inga Saicane

Senior Consultant | Risk Advisory

☎ +371 29 845 989  
✉ isaicane@deloittece.com

Inga is a Senior Consultant in Risk Advisory department, with focus on Risk & Regulatory aspects of Financial Services industry. Inga joined Deloitte in January 2018 and has obtained more than 10 years of professional experience in Financial Services industry within private and public sectors. Inga has gained extensive experience in financial instruments market while working in the Financial and Capital Market Commission, supervising companies admitted to trading on Nasdaq OMX Riga and in a Shared service center of one of the leading Nordic bank.

Deloitte is the **leading Financial Service industry Risk and Regulatory practice** in the Baltics, and an integral part of Western- & Central- European regulatory practice network. We have an extensive **track record** of regional regulatory compliance project implementation and Europe-wide expertise and experience.

We have a team of experts, with hands-on Banking **industry experience** in Baltic and wider Europe, including management consultancy experts, well-versed in industry-leading organizational and process architecture optimization projects; Legal experts in Financial Markets regulations and NCA-experienced professionals.



### Guna Kudrjavceva

Manager | Risk Advisory

☎ +371 29 157 668  
✉ gkudrjavceva@deloittece.com

Guna is a manager in Risk Advisory department of Deloitte Latvia, with a strong focus on Financial Services industry. Guna has more than 8 years of professional experience in the industry, leading projects in reporting transformation, regulatory response and change management. Prior to Deloitte, Guna has acquired five years of risk and finance function experience and transformation in state owned distressed asset management company and two year experience in business support, planning, control and efficiency improvement in a Top 5 bank in Latvia. Since joining Deloitte in 2017, Guna has managed the delivery of local and regional FSI projects including customer profitability analytics and KPIs, cross-border reporting solution implementation support, change and transition plan, regulatory reporting support and vendor cost optimization.



### Dzintra Zveja

Senior Consultant | Audit & Advisory

☎ +371 67 074 179  
✉ dzveja@deloittece.com

Dzintra is a Senior IT consultant in Deloitte Audit & Advisory Latvia and she has previous background of more than 10 years professional experience as internal IT auditor in large financial sector institutions. She has obtained international IT auditor expertise by participating in number of projects in Estonia, Lithuania, UK and Sweden. She holds a Master and Bachelor degree in computer sciences from University of Latvia and is a CISSP Certified Information Systems Security Professional and CISA Certified Information Systems Auditor.



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