



CHARTERED INSTITUTE FOR  
SECURITIES & INVESTMENT

LEVEL 3 AWARD  
GLOBAL FINANCIAL COMPLIANCE

EFFECTIVE FROM 1 DECEMBER 2011

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## OBJECTIVE OF THE EXAMINATION

The objective of the examination is to ensure that candidates have an introduction to international compliance.

The examination will test candidates' *Knowledge* and *Understanding* of the following elements:

- The International Regulatory Environment
- The Compliance function
- Managing the risk of financial crime
- Ethics, Integrity and Fairness
- Governance, Risk management and Compliance

## SYLLABUS STRUCTURE

The unit is divided into *elements*. These are broken down into a series of *learning objectives*.

Each learning objective begins with one of the following prefixes: ***Know*** or ***Understand***. These words indicate the different levels of skill to be tested. Learning objectives prefixed:

- ***Know*** require the candidate to recall information such as facts, rules and principles
- ***Understand*** require the candidate to demonstrate comprehension of an issue, fact, rule or principle

## CANDIDATE UPDATE

Candidates are reminded to check the 'Candidate Update' area of the Institute's website ([cisi.org](http://cisi.org)) on a regular basis for updates that could affect their examination as a result of industry change.

**EXAMINATION SPECIFICATION**

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element should not change by more than plus or minus 2.

<b>Examination specification 100 multiple choice questions</b>		
<b>Element number</b>	<b>Element</b>	<b>Questions</b>
1	The International Regulatory Environment	20
2	The Compliance function	24
3	Managing the risk of financial crime	20
4	Ethics, Integrity and Fairness	19
5	Governance, Risk management and Compliance	17
<b>Total</b>		<b>100</b>

**ASSESSMENT STRUCTURE**

A 2 hour examination of 100 multiple choice questions.

Candidates sitting the examination by Computer Based Testing will have, in addition, up to 10% additional questions as trial questions that will not be separately identified and do not contribute to the result. Candidates will be given proportionately more time to complete the test.

**SUMMARY SYLLABUS**

**ELEMENT 1 THE INTERNATIONAL REGULATORY ENVIRONMENT**

- 1.1 Models of regulation
- 1.2 The International approach to regulation

**ELEMENT 2 THE COMPLIANCE FUNCTION**

- 2.1 International best practice
- 2.2 The role of the Compliance function within a firm
- 2.3 Managing regulatory relationships

**ELEMENT 3 MANAGING THE RISK OF FINANCIAL CRIME**

- 3.1 Money laundering, terrorist financing and the standards required of firms
- 3.2 Practical implications
- 3.3 Policies, procedures and controls required of Firms

**ELEMENT 4 ETHICS, INTEGRITY AND FAIRNESS**

- 4.1 Ethics
- 4.2 Market Integrity
- 4.3 Fair Conduct
- 4.4 Fair Dealing

**ELEMENT 5 GOVERNANCE, RISK MANAGEMENT AND COMPLIANCE**

- 5.1 Corporate governance
- 5.2 Key risk types, their application and impact on the Compliance function

## ELEMENT 1 THE INTERNATIONAL REGULATORY ENVIRONMENT

### 1.1 Models of regulation

On completion, the candidate should:

- 1.1.1 *Understand* the objectives and benefits of regulation
- 1.1.2 *Know* the interaction between law and regulation in different countries
- 1.1.3 *Understand* the main differences between rule based and principles-based approaches to financial regulation
- 1.1.4 *Understand* models of self regulation
- 1.1.5 *Understand* the regulation of faith and ethical based finance and the attendant regulatory implications
- 1.1.6 *Understand* the extra-territorial reach of major legislation
  - Sarbanes Oxley Act (2002)
  - Markets in Financial Instruments Directive (2007)
  - UK Bribery Act (2010)
  - Foreign Corrupt Practices Act (1977)
  - Dodd–Frank Wall Street Reform and Consumer Protection Act (2010)
- 1.1.7 *Understand* how regulation operates in an Exchange traded environment
- 1.1.8 *Understand* the key benefits of regulated market structures
  - Exchanges
  - Multi-lateral trading facilities and systematic internalisers
  - Islamic trade platforms
- 1.1.9 *Understand* how regulation applies to transactions conducted off market

## 1.2 The International approach to regulation

On completion, the candidate should:

1.2.1 *Know* the jurisdiction of different regulators

1.2.2 *Understand* the role of International regulatory organisations

- Bank for International settlements (BIS)
- Council of Securities Regulators of the Americas (COSRA)
- Financial Stability Board (FSB)
- The International Organization of Securities Commissions (IOSCO)
- European regulatory bodies

1.2.3 *Understand* how International organisations aid the implementation of regulation in developing countries

1.2.4 *Know* the three Objectives of securities regulation as defined by IOSCO

1.2.5 *Understand* how regulators implement their regulatory objectives

1.2.6 *Understand* different regulatory approaches to supervision

- Risk based
- Rules based
- Thematic
- Relationship based
- Religion based

1.2.7 *Know* IOSCO's principles 1 to 8 relating to the Regulator

1.2.8 *Understand* regulators' enforcement powers

1.2.9 *Understand* what types of activities and investment products are generally required to be regulated

1.2.10 *Understand* the requirements regulation places on firms

- Minimum entry standards
- Initial and ongoing capital and other prudential requirements
- Requirement to establish an internal compliance function

1.2.11 *Understand* how regulators facilitate and regulate cross border business

- Specific legislation
- Memoranda of Understanding between individual regulators
- Regulatory colleges

1.2.12 *Understand* what regulations apply to a firm with international branches and subsidiaries

- Contractual agreements between regulators
- Home/Host

1.2.13 *Understand* the challenge of conducting business whilst meeting the regulatory expectations and approach of multiple regulatory bodies

- International
- Domestic

## ELEMENT 2 THE COMPLIANCE FUNCTION

### 2.1 International best practice

On completion, the candidate should:

- 2.1.1 *Understand* the fundamental systems and controls a firm should implement in order to conduct its business in line with international regulatory standards
- 2.1.2 *Understand* BIS principle 6 and the requirement for adequate resources
- 2.1.3 *Understand* the practical applications of a formalised document of compliance policies and procedures
  - Compliance manual
  - Islamic Financial Business Audit and Procedures Manual
- 2.1.4 *Understand* the key purpose of an effective compliance function
- 2.1.5 *Know* how to produce and implement an effective compliance programme
- 2.1.6 *Understand* how regulatory requirements should be integrated into operating systems, policies and procedures
- 2.1.7 *Know* the difference between regulations and internal policies and procedures
- 2.1.8 *Understand* the potential regulatory implications of business strategies
  - Outsourcing and oversight
  - Capital requirements
  - Variation of permissions
  - Control framework
- 2.1.9 *Know* how to prepare an effective compliance report for management
- 2.1.10 *Know* what basic information Compliance officers should have access to

**2.2 The role of the Compliance function within a firm**

On completion, the candidate should:

- 2.2.1 *Understand* the responsibilities and accountabilities of management and staff for compliance with regulations
- 2.2.2 *Understand* how to monitor whether a business is in compliance with regulations and internal policies and procedures
- 2.2.3 *Understand* the risks associated with non-compliance for firms and the financial services industry
- 2.2.4 *Understand* BIS principle 5 relating to the independence of the Compliance function and senior management accountability
- 2.2.5 *Understand* the relationship between Compliance and other departments
- 2.2.6 *Understand* the role Compliance has in training and maintaining competence and awareness
  - Educating staff on compliance issues
  - Acting as a contact point for compliance queries from staff members
  - Providing written guidance to staff
- 2.2.7 *Understand* how to monitor an individual's compliance with regulations and internal policies and procedures
- 2.2.8 *Understand* the range of potential outcomes to remedy non-compliance by an individual within a firm
  - Training and development activities
  - Internal disciplinary measures
  - External regulatory sanction
  - Legal avenues

2.2.9 *Understand* the role Compliance plays in new business development

- Due diligence
- Scope of regulation
- Highlighting material changes in the nature of existing relationships
- Assessing and reporting potential reputational risks

2.2.10 *Understand* the purpose of a compliance monitoring programme

- Risk based
- Reporting
- Planned

### **2.3 Managing regulatory relationships**

On completion, the candidate should:

2.3.1 *Understand* the relationship between the firm and regulator

2.3.2 *Understand* how an effective regulatory relationship can be of strategic importance to a firm

- Advocating opinion
- Involvement in consultation
- Drafting regulatory responses
- Making representations and applications
- Obtaining effective guidance

2.3.3 *Understand* what to do if your firm is the subject of a regulatory visit

- Scheduled
- Unscheduled (“Dawn raid”)

2.3.4 *Understand* what to do if a regulatory breach occurs

2.3.5 *Know* what types of information must be disseminated to whom in the event of a regulatory breach

- 2.3.6 *Know* what information may be disseminated and what should remain confidential if financial crime is suspected or detected
- 2.3.7 *Know* what types of information should remain confidential in the normal course of business

### **ELEMENT 3    MANAGING THE RISK OF FINANCIAL CRIME**

#### **3.1    Money laundering, terrorist financing and the standards required of firms**

On completion, the candidate should:

- 3.1.1 *Understand* the concept of money laundering and terrorist financing
- 3.1.2 *Know* the stages of the money laundering process
- Placement
  - Layering
  - Integration
- 3.1.3 *Know* the role of international agencies in combating money laundering
- United Nations Office for Drugs and Crime (UNODC)
  - International Monetary Fund (IMF)
  - World Bank
- 3.1.4 *Know* the role of the Financial Actions Task Force (FATF) in combating money laundering
- 3.1.5 *Understand* the role of Predicate offences in financial crime
- Fraud
  - Embezzlement
  - Bribery
  - Corruption

3.1.6 *Understand* how financial services firms may be utilised for financial crime

- Ponzi schemes
- Boiler rooms
- Money Laundering
- Offshore trusts
- Mortgage fraud

3.1.7 *Understand* how a firm or its representatives may collude in the propagation of financial crime

- Misstatement of financial circumstances
- Corporate fraud

3.1.8 *Know* the difference between tax evasion and tax avoidance

3.1.9 *Know* the concepts of dual criminality, extradition and mutual legal assistance

### **3.2 Practical implications**

On completion, the candidate should:

3.2.1 *Understand* how external financial crime issues may impact on a firm

- Reputational
- Systemically
- Counterparty risk
- Unreliable market valuations

3.2.2 *Understand* how financial crime may directly impact a firm

- Theft of customer data
- Theft of customer assets

3.2.3 *Understand* the responsibilities of directors and senior management in relation to anti-money laundering (AML), combating financial crime (CFC) and anti corruption (AC) initiatives

- 3.2.4 *Understand* the role of the Money Laundering Reporting Officer (or equivalent) in relation to financial crime
- 3.2.5 *Understand* the various approaches to identifying Money laundering
  - Risk based
  - Quantum based
- 3.2.6 *Know* the measures firms can adopt to inhibit the likelihood of financial crime
- 3.2.7 *Know* the measures individuals can adopt to inhibit the likelihood of financial crime
- 3.2.8 *Understand* the rationale behind sanctions screening
- 3.2.9 *Understand* the purpose behind screening higher risk individuals
  - Politically Exposed Persons

### **3.3 Policies, procedures and controls required of Firms**

On completion, the candidate should:

- 3.3.1 *Understand* the risks to a firm posed by its clients, products and delivery systems
- 3.3.2 *Know* the fraud, money laundering and terrorist financing risks associated with a firm's clients, products and delivery systems
- 3.3.3 *Understand* the controls a firm should have in place to minimise its risk to fraud, money laundering and terrorist financing
- 3.3.4 *Know* the criteria for an effective fraud, anti-money laundering and counter-terrorism financing training programme
- 3.3.5 *Know* the criteria for an effective suspicious transaction reporting system

## ELEMENT 4 ETHICS, INTEGRITY AND FAIRNESS

### 4.1 Ethics

On completion, the candidate should:

4.1.1 *Understand* how ethical principles relate to the financial services industry

- Regulatory standards
- Professional codes of conduct
- Internal codes of conduct

4.1.2 *Understand* the impact of the following when applying an ethical approach within an organisational or team environment:

- Self Interest
- Fiduciary responsibilities
- The role of the agent
- The role of stakeholders
- The role of the group or team

4.1.3 *Understand* the advantage of ethical behaviours and decision-making over rule based compliance

4.1.4 *Understand* the importance of senior management leadership in developing and maintaining ethical standards

4.1.5 *Understand* the importance of initiatives on global ethical and corporate social responsibility for the reputation of the financial services industry

4.1.6 *Understand* how technology may be utilised to promote ethical decision making

- Integrity Matters

## 4.2 Market Integrity

On completion, the candidate should:

- 4.2.1 *Understand* the benefits of a fair and orderly market
- 4.2.2 *Understand* the implications of false and misleading statements, behaviours and practices
- 4.2.3 *Understand* what type of information may be deemed to be price sensitive non-public information
- 4.2.4 *Understand* how individuals may legally possess price sensitive non-public information
- 4.2.5 *Know* what activities can constitute "Insider dealing"
- 4.2.6 *Understand* how systems and controls can minimise exposure to strategies and behaviours that might impair market integrity
  - Information barriers/ "Chinese walls"
  - Insider lists (including watch and restricted lists)
  - Personal account dealing
  - Gifts and entertainment
  - Conflicts of interest policies
  - Whistleblowing

## 4.3 Fair Conduct

On completion, the candidate should:

- 4.3.1 *Understand* expected compliant standards of behaviour for firms and individuals
  - Honesty & fair trade
  - Acting in best interest
- 4.3.2 *Know* the values to be observed in order to claim a Sharia'a compliant character in relation to Islamic business
- 4.3.3 *Understand* how the concept of fairness impacts on financial services firms
- 4.3.4 *Understand* legal concepts and considerations relevant to financial advice

4.3.5 *Understand* the role senior management play in maintaining fair conduct

- Senior management responsibilities
- Management Information
- Corporate culture

#### **4.4 Fair Dealing**

On completion, the candidate should:

4.4.1 *Understand* how associated but non-transactional activities impact on the firm

- Product design and marketing
- Financial promotions
- Client documentation
- Fair contracts

4.4.2 *Understand* the factors to consider prior to entering into a transaction

- Client/Counterparty objectives
- Client/Counterparty risk profile
- Affordability
- Suitability of the investment

4.4.3 *Understand* factors that should be considered at the point of sale

- Clear information
- Suitability of advice

4.4.4 *Understand* post sale factors that may impact on the firm

- Handling complaints in line with international standards
- Avenues of redress
- Expected and actual product performance
- Safeguarding customer assets
- Reporting requirements

## ELEMENT 5 GOVERNANCE, RISK MANAGEMENT AND COMPLIANCE

### 5.1 Corporate governance

On completion, the candidate should:

- 5.1.1 *Understand* the objectives of corporate governance
- 5.1.2 *Understand* the role of the Compliance function in implementing and monitoring corporate governance standards
- 5.1.3 *Know* the main corporate governance structures in UK/US, Europe and Islamic Finance
  - Unitary board
  - Two-tier structure
  - Sharia'a Supervisory board
- 5.1.4 *Understand* the impact of business and or management structures on the effective management of the Compliance function
  - Matrix structures
  - Silo structures
  - Maintaining independence
- 5.1.5 *Understand* how auditing contributes to prudential corporate governance, accounting and reporting requirements
  - Audit committees
  - Internal audit
  - External auditors
- 5.1.6 *Know* the purpose and key elements of due diligence
  - Identification
  - Selection
  - Fitness & Propriety

- 5.1.7 *Understand* how an effective training programme can contribute to good corporate governance
- 5.1.8 *Understand* the factors behind the formulation of the BIS Principles for enhancing corporate governance
- 5.1.9 *Know* the BIS Principles for enhancing corporate governance

## **5.2 Key risk types, their application and impact on the Compliance function**

On completion, the candidate should:

- 5.2.1 *Understand* the difference between risk and uncertainty
- 5.2.2 *Know* the key external sources of business risk and their potential impact
- 5.2.3 *Know* the key internal sources of business risk and their potential impact
- 5.2.4 *Know* the components and practical application of an effective risk management process
- 5.2.5 *Understand* how to assess and manage the impact of risks on a firm's business activities
- 5.2.6 *Understand* the key aims of the risk management function and its relationship with the Compliance department
- 5.2.7 *Know* the BIS definition of "Compliance risk"
- 5.2.8 *Know* who BIS deem responsible for the management of Compliance risk
- 5.2.9 *Know* what measures BIS state should be undertaken to manage Compliance risk
  - Formalised document establishing the Compliance function
  - Board approval
  - Annual review
- 5.2.10 *Understand* how technology can be utilised to enhance compliance risk assessment