

## The Three Lines of Defence

**In this edition of Newgate News, we focus on a crucial and under-appreciated area of focus for firms; the Three Lines of Defence (“3LOD”) compliance model.**

It is vitally important that firms re-visit their 3LOD model and ensure that it is evolving appropriately to address the risks posed in the post-pandemic compliance landscape.

As work practices are not likely to go back to the way they were pre-2020, the working world has changed and a firm’s 3LOD needs to adapt accordingly.

In a recent **speech** by the FCA, firms are increasingly expected to focus on ‘tone from within’ which requires every person in an organisation to be personally accountable and engaged for its compliance with FCA rules.

### LINE 1 - EMPLOYEES

A firm’s employees are the crucial first line of defence and Senior Managers need to be confident that day-to-day operating procedures deliver regulatory compliance. Front line teams must be responsible for managing and mitigating their own compliance risks. The key here for firms is having clear and practical policies which are supplemented with effective training.

With working remotely now a business norm which may continue in the future, providing your employees with the right level of support and training is absolutely vital. Convolved, vague or overly bureaucratic policies have a negative effect and do not increase staff compliance nor reduce regulatory risk. At Newgate, we work with clients to ensure that employees have the access to tailored and appropriate policies which provide them with clear guidance.

Newgate have a dedicated **online training centre** which offers a suite of online courses designed to help employees not only meet their mandatory training requirements and but also assist with their continuous professional development.

## LINE 2 – COMPLIANCE MONITORING

The second line of defence is the application of a risk-based compliance monitoring programme. Robust compliance monitoring is fundamentally important in identifying areas where a firm might be at risk of non-compliance with FCA rules or regulations. This should never be just a quick tick box exercise in an attempt to appease any future FCA visit, but a meaningful review by a firm's compliance team of the first line of defence. If your compliance monitoring is not identifying risks or breaches, then we would suggest it is not doing its job properly.

Too many firms view entries on beaches registers as deeply negative, whereas we argue quite the opposite. This is the second line doing its job effectively and bringing with it a greater confidence that issues are going to be identified and addressed at an early stage rather than allowing them to snowball into a more significant or material event.

Newgate's online **gateway** system is a comprehensive compliance management tool which our experienced consultants have carefully designed to assist firms test its systems and controls on a regular basis. Our consultants update these tests regularly to reflect all emerging requirements including, most recently the risks posed by remote working. So do please make the most of this invaluable tool.

## LINE 3 – INDEPENDENT ASSURANCE

An annual independent review of a firm's compliance framework is the final line of defence and the one which perhaps provides Senior Managers with the greatest degree of comfort.

Too often, however, is this line perceived as simply picking holes in the work being carried out by the first and second lines. At Newgate, we work with clients on identifying areas which might require measures being strengthened however we also provide a clean bill of health or even highlight areas we believe reflect best practice.

## HOW NEWGATE CAN ASSIST

Our experienced team of consultants, many of whom are ex-regulators with the FCA, can provide independent assurance and audits of firm's compliance programme by way of a "Compliance Health Check". We also provide independent audits on AML KYC file reviews and ensuring that your outsourced providers (e.g., appointed administrators) carry out their roles effectively in line with FCA requirements.

Please contact Newgate for further information on the services we provide.



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## **About Newgate Compliance**

Newgate Compliance is a compliance consultancy offering a modern solution to implement your compliance function using an innovative compliance software solution called **The GATEway**.

Newgate has an unrivalled combination of experienced professionals, many of whom are ex-regulators.

Our customer focused approach seeks to provide appropriate, pragmatic and flexible solutions to our clients helping them to meet both the regulator's rules but also the spirit, principles and culture of the regulatory regime.

We look to build long-term relationships with our customers helping to encourage business growth, productivity and innovation. Our proactive approach is tailored to each customer's needs changing to meet those needs as the customer progresses and develops.

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