The role of the Compliance Function as a key element of Corporate Governance efficiency in the banking sector.

An impediment or an asset in the strategy and profitability of credit institutions?

Ioanna Sapountzi

SCHOOL OF ECONOMICS, BUSINESS ADMINISTRATION & LEGAL STUDIES

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Student Name:	Ioanna Sapountzi
SID:	1101140019
Supervisor:	Prof. Stergios Leventis and Prof. Lida Kyrgidou

I hereby declare that the work submitted is mine and that where I have made use of another's work, I have attributed the source(s) according to the Regulations set in the Student's Handbook.

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Thessaloniki - Greece

Abstract

This dissertation was written as part of the MSc in EMBA Program at the International Hellenic University.

Corporate governance is inextricably linked to proper functioning and profitability of the banks, and is nowadays regulated by a continuously accelerating legal and compliance framework which determines the relationships of bank's management, its board, its shareholders and its stakeholders. As a result, compliance function evolved in a key element of corporate governance, delegated with the difficult task of ensuring compliance with the current excessive legislation.

In the light of the above by means of quantitative methods we investigate and establish the relationship between compliance function -as a key element of sound corporate governance- and profitability in banks. We used a questionnaire to measure the perception of compliance function among high-ranking executives and compliance officers as well. The results obtained from the relevant research suggest that compliance function is linked with profitability of banks. Specific implications and recommendations were presented and discussed.

Upon completion of this thesis, I would like to take the opportunity to express my gratitude to those who have supported and assisted me throughout the process. In particular, I express my deep appreciation to Ms. Kyrgidou for her assistance, guidance and support. I would also to thank Mr. Leventis and the IHU's administrative and academic staff for their understanding and supporting in the exceptional circumstances that I faced. I would like to especially thank my employer for providing me with this opportunity. More importantly I dedicate this thesis to my family and my mother who at all times really supported and acknowledged my efforts in continuous education, but unfortunately passed away two years ago, in the same day that I began this journey in knowledge with IHU.

Keywords: compliance, compliance function, corporate governance, profitability, banks

Ioanna Sapountzi
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Preface

In my experience as a bank employee and executive, I have observed throughout the years that, a high level of compliance of banks with their regulatory framework, usually comes with an immediate impact both on their reputation and their profitability. As the years passed, I have also been a witness of the evolution of the importance of the Compliance Function in the organizational structure of the banking system in Greece. As a matter of fact, Compliance is nowadays a separate independent function of the banks.

Moreover, especially the last years, I have noticed that excessive and imprudent risk-taking in the banking sector has led to the failure of individual financial institutions, with direct effect to the entire banking system and the economy. Nevertheless, while the causes of such risk-taking are many and complex, all of these risks are usually in the auspices of relevant corporate governance decisions. Specifically, the recent market turbulence both in Europe and globally has highlighted the risks of weak, opportunistic or immoral corporate governance practices.

I strongly believe that the absence of a coherent and adequate Compliance Function generates a number of potential risks. The Compliance Function ensures appropriate oversight over the management body, providing advice concerning the regulatory framework and standards the institution needs to meet, emphasizing on those that could have a possible impact in the institution’s activities and profitability. In this respect I think it’s time for the Compliance Function to reinvest and strengthen its role.

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1. Introduction

The Global Financial Crisis began in 2007 from the United States with the crisis in the subprime mortgage markets and the Lehman Brothers collapse, expanding later to Europe and its recession in connection to debt crisis[1]. To address the market scandals and the dramatic losses due to the crisis, regulators both at international and national level have put emphasis in empowering the tolerance of the banking sector. To this end, on one hand new stricter regulatory framework was introduced; on the other hand, control systems were upgraded.

In order to achieve compliance in such an over-regulated environment, even big banks have to commit human and technical resources. For example, significant amounts should be spent on upgrading or adding new IT systems and logistics, or for hiring consultants or external auditors. So, the importance of achieving compliance is huge, and interests many stakeholders, like personnel, customers, providers, the authorities, the markets and investors. Moreover, compliance is of primary concern for executives, Board Members and shareholders, if it helps or impedes profits.

The link between corporate governance and profitability in the banking sector has been investigated by the literature in the past, proving that it plays an important role in its success. [2] Discipline and responsibility could affect the success of a commercial bank[3]. The fact that we now live in an "era of compliance" is undeniable. [4] Thus it is of significant importance to examine and evaluate whether compliance provides opportunities for profits only for consultants/audit firms or for the banks as well.

Without doubt, profitability is the fundamental objective of every commercial company, as it is vital in order to maintain its stability, increase its growth and lead to its expansion. The aim of this thesis is to examine the contribution of Compliance Function to the profitability of the banks in today's financial volatile environment and intensively increasing levels of risks and to define the role of Compliance. Almost all kinds of risk, like sovereign, market, credit, operational, liquidity, reputational and of course compliance or regulatory risk, are being considered.

[1] Basel III (June 2011), A global regulatory framework for more resilient banks and banking systems-revised version, p. 1· Gong Cheng, Dirk Mevis (2015), What happened to profitability? Shocks, challenges and perspectives for euro area banks, European Stability Framework Working Paper Series, p.2.
[2] Akpan, Emmanuel S/Riman, Hodo B, Does Corporate Governance affect Bank Profitability? Evidence from Nigeria, American International Journal of Contemporary Research Vol. 2 No. 7; July 2012
[3] Organizational Success (Empirical Study on Consumer Banks in Lahore, Pakistan), International Journal of Business and Social Science Vol. 3 No. 13; July 2012
[4] Sean J. Griffith, Corporate governance in an era of Compliance, William & Mary Law Review, Vol. 57, No. 6, 2016 (electronic copy available at: http://ssrn.com/abstract=2766661)

In this context, we will try to analyze the role and the importance of compliance function that seems to have become an emerging concept in financial sector enterprises and to point out the strong and direct link between compliance and efficiency of corporate governance mechanisms.

Specifically, since the blame was put on the banks' strategy and the governance, it was reasonable that the establishment of an effective organizational structure with focus on the sound corporate governance practices was among the priorities of the competent authorities. Moreover, the reform measures also focused on the enhancement of the existing internal control systems and their part as an integral element of the corporate governance of the banks. It should be noted that Internal Control Systems are thought to be "a set of control mechanisms and procedures that covers all the activities of a credit institution on an ongoing basis and is designed to contribute to its effective and sound operation"[5].

"Compliance" as one of the three pillars of Internal Control Systems, ensures adherence to the regulatory framework and aims at the good conduct of business at entity level, promoting at the same time a robust banking system at systemic level. Therefore, after the Global Financial Crisis of 2007, the interest of regulatory authorities was reasonably targeted more on the assessment of compliance of the banks and massive penalties were enforced to banks by the regulators in cases of misconduct on their part in the last decade. As a result, the Compliance Function emerged as the safeguard of the efficiency of the corporate management mechanisms.

The cases of compliance misconducts infer that the effects of compliance towards the profitability of a bank should be seen from a dual perspective. On one hand, Compliance Function should definitely be involved in the company's strategy, since after the crisis the vast new regulation, concerning capital adequacy, liquidity, risk management etc, affects the assessment of the company's viability by the regulators. On the other hand, failures of compliance, taking mostly the form of fines and penalties, can be damaging for the banks, and could affect in a negative way the reputation of the bank and in the end its profits.

In the following chapters, through the use of literature and primary and secondary data research, we will attempt to prove that the Compliance Function is inextricably linked to the efficiency not only of the corporate governance mechanisms but also to the sustainability, the profitability and the development of credit institutions.

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[5] Bank of Greece Governor's Act 2577/9.3.2006 "Framework of operational principles and criteria for the evaluation of the organization and Internal Control Systems of credit and financial institutions and relevant powers of their management bodies".

2. Literature review

This thesis focuses on the link between compliance and corporate governance mechanisms efficiency, and the results on the profitability of credit institutions.

Literature is reviewed on the background of theoretical underpinnings of Corporate Governance, company leadership, business strategy, and will be combined with data analysis in order to reach to conclusions.

According to the European Stability Framework Working Paper Series (2015)[6], the literature on the variety of factors determining bank profitability and performance can be traced back to the 1980s and 1990s following the wave of financial deregulation, e.g. interest margins, operational efficiency, business diversification, market structure.

Corporate Governance

Primary goal of every bank's corporate governance mechanism is to maximize its profits, since without profits it is almost certain that it will not survive in the long-run[7]. Therefore, efficiently determining all the factors that affect profitability is very important in order to accurate measure current and past profitability.

Literature shows that governance mechanisms can affect strongly bank performance in terms of risk taking[8.] Moreover, the recent global financial crisis also provoke a conversation about the importance of corporate the durability and soundness of banks[9] and the publication of relevant regulatory documents and reports, such as OECD "Corporate Governance Board Practice – Incentives and Governing Risks" (2011)[10], OECD

[6] Gong Cheng, Dirk Mevis (2015), What happened to profitability? Shocks, challenges and perspectives for euro area banks, European Stability Framework Working Paper Series, p.3.

[7] Josiah Aduda, James Gitonga (September 2011) The Relationship Between Credit Risk Management and Profitability Among the Commercial Banks in Kenya, Journal of Modern Accounting and Auditing, , Vol. 7, No. 9, 936.

[8] Berger, Allen N., Imbierowicz, Björn, Rauch, Christian (December 2012), The Roles of Corporate Governance in Bank Failures during the Recent Financial Crisis, , p.1 refer to e.g. such as Saunders, Anthony, Elizabeth Strock, and Nickolaos G. Travlos (1990), Ownership structure, deregulation, and bank risk taking, The Journal of Finance 45(2), 643-654 Gorton, Gary and Richard Rosen (1995), Corporate control, portfolio choice, and the decline of banking, The Journal of Finance 50(5), 1377-1420; Anderson, Ronald C. and Donald R. Fraser (2000), Corporate control, bank risk taking and the health of the banking industry, Journal of Banking & Finance 24(8), 1383-1398; Caprio, Gerard, Luc Laeven, and Ross Levine (2003), Governance and bank valuation, NBER Working Paper 10158; Laeven, Luc and Ross Levine (2009), Bank governance, regulation and risk taking, Journal of Financial Economics 93(2), 259-275; Pathan, Shams (2009), Strong boards, CEO power and bank risk-taking, Journal of Banking & Finance 33(7), 1340-1350; Fahlenbrach, Rüdiger and René M. Stulz (2011), Bank CEO incentives and the credit crisis, Journal of Financial Economics 99(1), 11-26.

[9] Berger, Allen N., Imbierowicz, Björn, Rauch, Christian (December 2012), The Roles of Corporate Governance in Bank Failures during the Recent Financial Crisis, p.5,6.

[10] Available: http://www.oecd.org/daf/ca/49081438.pdf

“The Financial Crisis: Reform and Exit Strategies” (2009)[11], EBA “Report on Benchmarking of Remuneration and on High Earners 2013”[12], EBA “Follow-Up Report on the actions taken by competent authorities following the publication of the Opinion of the European Banking Authority on the application of Directive 2013/36/EU regarding the principles on remuneration policies for credit institutions and investment firms and the use of allowances”.

Corporate governance determines the bank’s strategy and infrastructure, allocating among others authority and responsibilities and establishing internal control systems that ensure oversight of the bank[13]. According to Basel Committee on Banking Supervisions (hereinafter “Basel Committee) corporate governance is «a set of relationships between a company’s management, its board, its shareholders and other stakeholders which provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance. It helps define the way authority and responsibility are allocated and how corporate decisions are made”[14]. From the previous definition it could easily be understood that effective corporate governance is inseparably linked to a bank’s profitability. As proven by the Global Financial Crisis which began in 2007[15] ineffective corporate governance structure and function could affect not only the financial sector, but the economy as a whole[16].

Compliance function and compliance risk

Together with risk management and internal audit, compliance function is an essential element of internal control systems, comprising of “a set of control mechanisms and procedures that covers all the activities of a credit institution on an ongoing basis and is designed to contribute to its effective and sound operation”[17]. They are known as “Three Lines of Defense” used to assist the bank in process of defending territory from an external threat[18].

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[11] Available: http://www.oecd.org/daf/fin/financial-education/43091457.pdf

[12] Available: https://www.eba.europa.eu/documents/10180/950548/Report+on+Benchmarking+of+Remuneration+and+on+High+Earners+2013.pdf

[13] Basel Committee on Banking Supervision, Corporate governance principles for banks, p.24.

[14] Basel Committee on Banking Supervision (July 2015), Corporate governance principles for banks, p.4

[15] Basel III: A global regulatory framework for more resilient banks and banking systems - revised version June 2011, p. 1.

[16] Basel Committee on Banking Supervision (July 2015) Corporate governance principles for banks, p.4.

[17] Bank of Greece Governor’s Act 2577/9.3.2006 “Framework of operational principles and criteria for the evaluation of the organization and Internal Control Systems of credit and financial institutions and relevant powers of their management bodies”.

[18] Geoffrey P. Miller (November 2014), The compliance function: an overview, New York University School of Law, NYU Center for Law, Economics and Organization, , Working Paper No. 14-36, p.4.

Compliance functions are known in the United States since the 1930s and 1940[19]s. However, in April 2005, the Basel Committee[20] released a document entitled "*Compliance and the compliance function in banks"*[21] setting thus the tone at international level for the significance of compliance in the banking sector.

Moreover, *"compliance risk*" was also defined by the Basel Committee in this document as "*the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities*"[22]. Therefore, Compliance Function is responsible for the management of compliance risk.

In the past, addressing compliance risk was easier, since in most cases it was related to compliance with a limited and specific set of rules[23]. However, globalization of the economy added new legislative and regulatory frameworks, which international corporations have to comply with. Moreover, the recent international financial crisis resulted in the excessive amendment of the banking legislation and the expansion of new regulatory obligations into previously unregulated or poorly regulated areas. As a result, hundreds of regulations and measures in execution of them have been published especially in Europe and the United States such as, for instance, Dodd-Frank Wall Street Reform and Consumer Protection Act[24] and Foreign Account Tax Compliance Act (FATCA)[25] in the United States, Basel III rules[26]

[19] Miles Everson, Charles Ilako, and Carlo di Florio (March 2003), Corporate Governance, Corporate Governance, Business Ethics, and Business Ethics, and Global Compliance Management, p. 22, ABA Bank Compliance.

[20] The Basel Committee on Banking Supervision is a committee of banking supervisory authorities which was established by the central bank Governors of the G10 countries in 1975. It is made up of senior representatives of banking supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the Bank for International Settlements in Basel, where its permanent Secretariat is located. More information on the Basel Committee, as well as its publications, can be found at www.bis.org/bcbs/index.htm

[21] Basel Committee on Banking Supervision, Compliance and the compliance function in banks, April 2005, available: http://www.bis.org/publ/bcbs113.pdf

[22] Basel Committee on Banking Supervision (April 2005), Compliance and the compliance function in banks, p. 7.

[23] S. S. Mundra (27 August 2014): Re-emphasizing the role of compliance function in banks, Conference of Chief Compliance Officers in RBI, Mumbai.

[24] Dodd-Frank Wall Street Reform and Consumer Protection Act available: https://www.sec.gov/about/laws/wallstreetreform-cpa.pdf

[25] Foreign Account Tax Compliance Act (FATCA) available: https://www.irs.gov/Businesses/Corporations/Foreign-Account-Tax-Compliance-Act-FATCA

[26] http://www.bis.org/bcbs/basel3.htm

which were incorporated into European Union Law through a Directive[27] and a Regulation[28] for Capital Requirements[29], Single Supervision[30] and Single Resolution Mechanisms[31] establishing regulations and directive, Markets in Financial Instruments Directive (MiFID)[32], Payment Services Directive[33], Mortgage Credit Directive[34] etc. Moreover, it should be noted that compliance nowadays goes beyond abiding to the regulatory framework issued by legislators and supervisors, but it also includes adherence to broader standards of integrity and ethical conduct such as codes of practice and ethics.

Compliance function's responsibilities and organization on the 21th century

Consequently, Compliance Function nowadays has an elevated dynamics in day-to-day business as it is involved from the bank's operation as an entity to the development and introduction of its products. Therefore, it is completely justified that this Function needs to report directly to the management and be independent from the other units and functions of the bank, regardless of the way Compliance Function is organized[35].

Specifically, organization of Compliance Function in a bank differs taking into consideration the size, the structure and the relevant risk management that compliance is responsible for. According to the aforementioned document entitle "*Compliance and the compliance function in banks"[36]* of Basel Committee, a bank has, among others, the following options:

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[27] Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV), OJ L 176, 27.6.2013, p. 338–436.

[28]Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR), OJ L 176, 27.6.2013, p. 1–337.

[29] http://ec.europa.eu/finance/bank/regcapital/legislation-in-force/index_en.htm

[30] https://www.bankingsupervision.europa.eu/legalframework/ecblegal/framework/html/index.en.html
http://ec.europa.eu/finance/general-policy/banking-union/single-supervisory-mechanism/index_en.htm

[31] http://ec.europa.eu/finance/general-policy/banking-union/single-resolution-mechanism/index_en.htm

[32] http://ec.europa.eu/finance/securities/isd/index_en.htm

[33] Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC, OJ L 319, 5.12.2007, p. 1–36 and for the payment services in general http://ec.europa.eu/finance/payments/framework/index_en.htm

[34] Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010, OJ L 60, 28.2.2014, p. 34–85.

[35] Basel Committee on Banking Supervision (April 2005), Compliance and the compliance function in banks, p. 8˙ Basel Committee on Banking Supervision (July 2015), Corporate governance principles for banks, p.34˙ Miles Everson, Charles Ilako, and Carlo di Florio (March 2003) "Corporate Governance, Corporate Governance, Business Ethics, and Business Ethics, and Global Compliance Management", p. 26, ABA Bank Compliance.

[36] Basel Committee on Banking Supervision (April 2005), Compliance and the compliance function in banks, p. 8.

- compliance staff may be located within operating business lines˙
- compliance function staff may be located in one unit which is autonomous or within operational risk function˙
- allocate group and local compliance officers[37].

Regardless of how Compliance Function (hereinafter "Compliance ") is organized within a bank, it should be sufficiently resourced, its responsibilities should be clearly specified, and its activities should be subject to periodic and independent review by the Internal Audit function[38].

"Compliance's" core tasks and responsibilities have expanded as a reaction to the international financial crisis covering areas such as:

- prevention of money laundering and terrorist financing,
- managing conflicts of interest,
- prohibition of market abuse and manipulation,
- demonstrating compliance with relevant regulatory framework,
- treating customers fairly and ensuring proper customer protection,
- educating staff on compliance issues,
- identifying and assessing compliance emerging risks associated with the bank's business activities and resolving regulatory failures,
- promoting new types of business or customer relationships or structuring of products or services,
- developing annual compliance plans,
- advising and assisting, senior management on compliance issues,
- enhancing corporate image and eliminating reputation relevant risks,
- creating a structure and protocol governing investigations,
- monitoring bank' s performance,
- developing sound control framework and establishing appropriate policies and procedures,
- reporting on a regular basis to senior management,
- liaising with regulators[39].

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[37] Basel Committee on Banking Supervision (April 2005), Compliance and the compliance function in banks, , p. 8 and 15.

[38] Basel Committee on Banking Supervision (April 2005), Compliance and the compliance function in banks, , p. 8 and 15.

[39] Basel Committee on Banking Supervision (April 2005), Compliance and the compliance function in banks, p. 13, 14˙ Miles Everson, Charles Ilako, and Carlo di Florio (March 2003) "Corporate Governance, Corporate Governance, Business Ethics, and Business Ethics, and Global Compliance Management", p. 27, ABA Bank Compliance.

Accordingly, compliance has a multidimensional character[40], playing a crucial role in strengthening public image confidence. In order to achieve efficient performing, “Compliance” needs to be supported through setting the "tone from the top", meaning that the Board of Directors and the senior management would embrace compliance culture within the bank and adapt a unified vision, so that compliance is made everyone’s concern[41]. As a matter of fact according to an assessment of survey results concerning the “Implementation of the compliance principles” of Basel Committee[42], nearly all respondents impose compliance responsibilities on the Board of Directors and senior management, thus underlining, that compliance starts at the top[43].

Furthermore, as far as regulatory authorities are concerned, compliance is non-negotiable. This is easily inferred from the cost of non-compliance shown from the huge penalties recently imposed by many authorities worldwide, which will be further analyzed. Even though regulatory sanctions are definitely affecting the bank, the real damage is to the firm’s reputation, affecting its shareholders and its employees[44]. As a matter of fact, reputational damage is generally considered as one of the top-ranked risks[45] affecting business profitability.

[40] S. S. Mundra (27 August 2014), Re-emphasizing the role of compliance function in banks, Conference of Chief Compliance Officers in RBI, Mumbai.

[41] S. S. Mundra (27 August 2014), Re-emphasizing the role of compliance function in banks, Conference of Chief Compliance Officers in RBI, Mumbai ˙ Basel Committee on Banking Supervision (July 2015), Corporate governance principles for banks, p.9˙ Miles Everson, Charles Ilako, and Carlo di Florio (March 2003), “Corporate Governance, Corporate Governance, Business Ethics, and Business Ethics, and Global Compliance Management”, p. 28, ABA Bank Compliance.

[42] A report was based on the results of that assessment, which was conducted in the course of 2007 and in which 21 jurisdictions participated, including the 13 member-jurisdictions of the Basel Committee, and eight other jurisdictions from the Basel Committee’s International Liaison Group (ILG).

[43] Basel Committee on Banking Supervision (August 2008), Implementation of the compliance principles, A survey, p.2.

[44] Miles Everson, Charles Ilako, and Carlo di Florio (March 2003), Corporate Governance, Corporate Governance, Business Ethics, and Business Ethics, and Global Compliance Management”, p. 22, ABA Bank Compliance.

[45] AON Risk Solutions “Global Risk Management Survey 2015”, which was conducted in the fourth quarter of 2014 with input from 1.418 respondents at public and private companies of all sizes around the world.

3. Methodology

Data collection

We obtained our data through questionnaires regarding the role of the Compliance Function, as a key element of Corporate Governance efficiency, in the profitability of the banking sector. Our purpose is to establish the fact that the Compliance Function is a key element of an effective corporate governance, and is inextricably linked to sustainability and profitability. Since the scope of the research is the banking sector, the questions used were based on the publicly available report "Compliance and competitiveness" of the Economist Intelligence Unit, sponsored by Sybase, properly adjusted[46] in order to establish our hypothesis.

We selected in our sample individuals from the banking sector, in particular highly-ranked executives, since these people have the knowledge and experience to give us the right direction in our research concerning the role of compliance in banks. The criteria for choosing these individuals were the following: i) They have to be active executives of the banking sector ii) They should have working experience in the field of compliance or have participated in actions that are related with the compliance sector in their business. According to these criteria, 40 people from the author's professional network were invited to participate in this on-line research. Although participants were contacted in order to be advised about the scope and the aim of the survey, we didn't proceed in interviews. The Google Forms platform was used for the submission of the Questionnaire. We received answers from 31 people (response rate of 77,5%), but we only chose the responses received from 29 people, which we believe are the most solid answers for our inquiry. Accordingly, we created a pool of data derived from 29 observations.

[46] http://www.economistinsights.com/financial-services/analysis/compliance-and-competitiveness

Process

We formed a questionnaire of 20 questions with a variety of subjects about the role of Compliance Function within this new intensive regulatory framework, trying to learn and understand the opinion of our respondents about the impact of Compliance Function on their job.

The response to the questionnaires completed within two weeks without any further reminder from our behalf. A few participants communicated with us for additional clarifications. Nine of forty participants were addressed by us only once as a kindly reminder, but finally they did not answer probably due to their heavy workload.

For the examination of our data we used a statistic program called Superior Performance Software System (SPSS). More specifically, for the statistical processing of the questionnaires we had to create an encoding table, which assigns each question of the questionnaire with a variable. For example, the question “What is your title/position?’’ is assigned with the variable “Title/Position”.

Variables take different values. Variable “Title/Position” had six possible values: “Board Member”, “CEO”, “Compliance Officer”, “Head of Control Unit”, “Head of Business Unit” and “Other low level”. In the coding table we assigned to each value of a variables, a number that symbolizes the label of the variable assigned. E.g. in “Board Member” is assigned with value number 1, “CEO/ executive members” is assigned with number 2, and so on. Based on the above, the coding table created for our questionnaire is the following:

Table 1: The Coding Table – part 1

Country:	Activity:	Title:
1. Greece 2. F.Y.R.O.M. 3. Albania 4. Romania 5. Cyprus 6. Serbia 7. South Africa	1. Investment Management 2. Investment Banking 3. Corporate Banking 4. Commercial Banking 5. Retail Banking 6. Hedge Funds	1. Board Member 2. CEO/ BoD Executive Members 3. Compliance Officer 4. Head of Control Unit 5. Head of Business Unit 6. Other low level officers

Table 1: The Coding Table – part 2

Question 1	1. It will ensure its stability and safety 2. It will ameliorate the relations with external stakeholders 3. It will enhance its balance sheet 4. It will decrease the volatility in earnings 5. It will make it easier to captivate new customer 6. It will improve its competitiveness 7. It will make it easier to launch new products or services 8. It will strengthen its financial performance
Question 2	1. It will expand its cost base 2. It will disrupt its capability to launch new products or services 3. It will negatively influence its financial results 4. It will impair its competitiveness 5. It will make it more difficult to tempt and engage customer 6. It will shrink its balance sheet
Question 3	1. Using reputation to improve overall public image and gain customer trust 2. Using its reputation to build better relations with supervisors 3. Using its reputation to attract new investors
Question 4-11	1. Agree strongly 2. Agree slightly 3. Neither agree nor disagree 4. Disagree slightly 5. Disagree strongly
Question 12-15	1. Very Effective 2. Effective 3. Not sure 4. Ineffective 5. Very Ineffective
Question 16	1. Significant Increase 2. Increase 3. Neither increase nor decrease 4. No increase
Question 17 -20	1. Positive 2. Neutral 3. Negative

Following the above, we calculated the frequency of each variable, i.e. the number of times that a value appears in our data. Table 2 e.g. presents the frequency of each value and its percentage over total in the question what is your title/position.

Table 2: Frequency rates

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Board Member"	2	6,7	6,9	6,9
	"CEO"/Executive Members	2	6,7	6,9	13,8
	"Compliance Officer"	11	36,7	37,9	51,7
	"Head of Control Unit"	3	10,0	10,3	62,1
	"Head of Business Unit"	8	26,7	27,6	89,7
	"Other low level"	3	10,0	10,3	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

(Output by SPSS)

4. Data analysis

Figure 1 shows that the questionnaire was answered by two Board Members, two Executive Members of Board, eleven Compliance Officers, three Heads of Control Units, eight Heads of Business Units and three Other-low level employees.

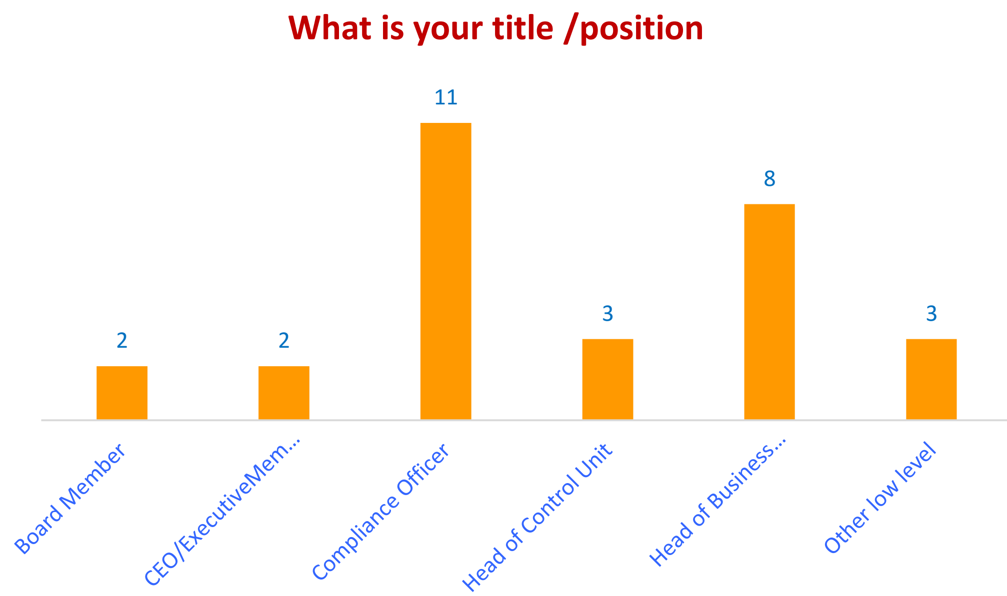

Figure 1: Statistics for job position

To see where our results came from, we must look at Figure 2, which depicts the answers to the question "In which country is your company seated". As it is evident, our results mainly derive from companies seated in the Balkans and especially in Greece. Additionally, one answer came from South Africa and one from Cyprus, which help us select information beyond the boundaries of the Balkans.

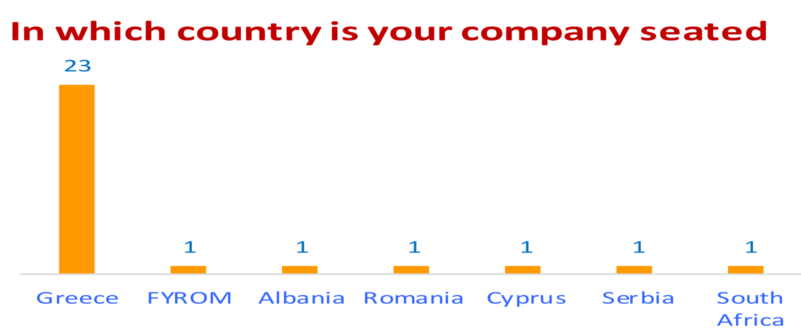

Figure 2: Statistics for countries

Information on the employment sector of the respondents is presented in Figure 3. Most of the participants are working in Commercial Banking, while 7 out of the 29 respondents are working in Retail Banking. Considering that compliance is heavily involved in all activities included both in Commercial and in Retail Banking, we can assume that our sample is valid.

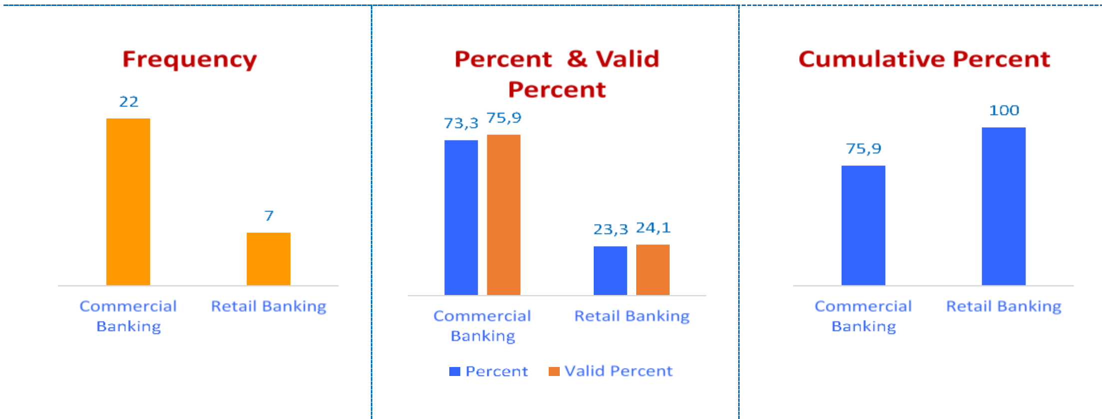

Figure 3: Frequency analysis for the industry/activity (Output by SPSS)

As mentioned above, we used the method of the questionnaire to obtain results for our research. Analyzing these results helped us come to a conclusion about whether Compliance Function plays a major role in the profitability of banks as a key element of Corporate Governance efficiency.

Firstly we asked participants in which way they think that compliance with the new intensive regulatory framework (after the crisis) will be a positive development. Looking at Figure 4, we can see that 24 of them stated that compliance will make their company or the financial sector in general safer and more stable. Two of them answered that it will improve the relationship with external stakeholders, while each of the other available response options was selected by one respondent. The responses indicate that compliance is perceived as a factor that effectively contributes and ensures stability and growth of the company.

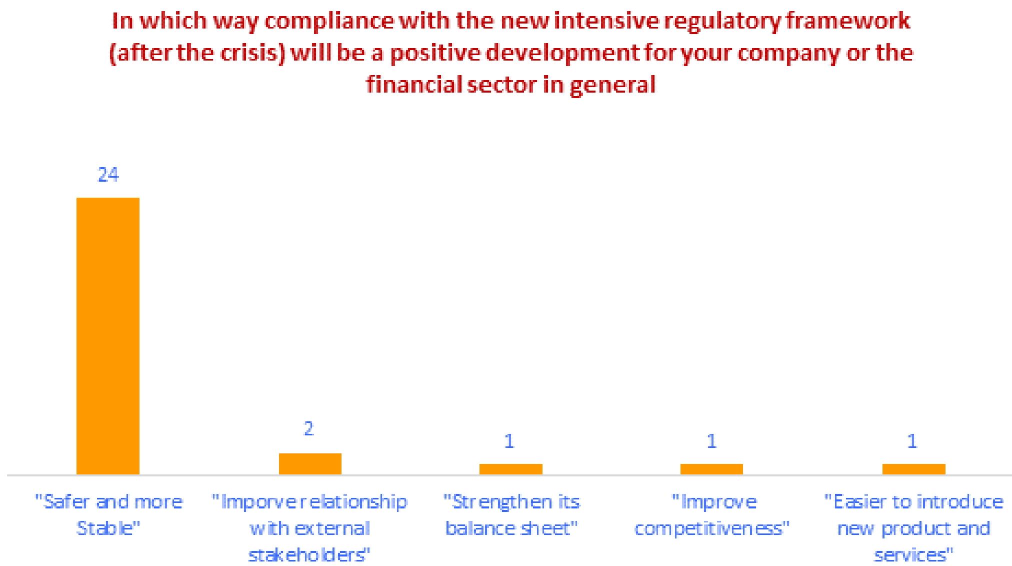

Figure 4: Statistics for Question 1

Our inquiry continued by asking participants, whether they believe that any negative consequences for the company or the financial sector in general would occur due to the application of the new intensive regulatory framework (after the crisis) and which these would be. As depicted in Figure 5 below, 14 participants think that compliance nowadays may be too expensive for the company or the financial sector, since it increases its cost base. Within a challenging economic environment, many organizations have seen budget reductions, even though regulatory requirements are increasing. To some extent it may be difficult to precisely determine what shall be measured as overall compliance cost, since compliance scope and activities are defined and executed in a different manner at different organizations. Compliance costs can be classified and categorized in a number of ways, including affirmative spending on (required or prudential) compliance activities (such as cost of I.T. solutions/software, training programs etc) and defensive spending, associated with handling acute noncompliance issues (e.g. fines) and cost avoidance. Seven respondents have a different opinion, as they think that compliance can disrupt the company's capability to launch new products or services. Others think that it will negatively influence its performance and prevent the company from growing financially or that it will harm the company's competitiveness, as a result of its financials.

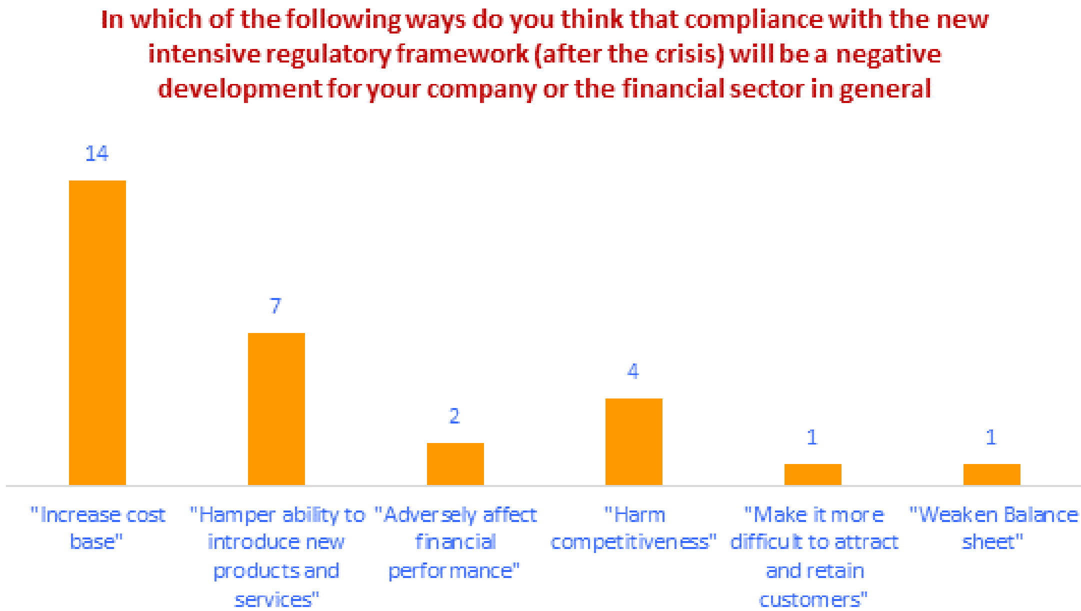

Figure 5: Statistics for Question 2

A conclusion drawn based on these answers, is that the majority of the respondents focus on the cost and the financial results that compliance with a stricter regulatory framework has. Accordingly, this may suggest that companies may not wish to comply because of the high cost involved in doing so and may instead prefer to pay fines. One may presume that paying fines may be considered as a more efficient strategy for the companies after all. On the other hand what should also be taken into consideration is that fines weaken the balance sheet as larger provision are required for them and for litigations -that usually follow fines- as well. Furthermore fines could jeopardize the stability and growth of banks. In light of the above, an analysis of secondary data will be used in order to prove the impact of non-compliance incidents on financial performance of banks. Specifically:

During the last years, high fines imposed on banks, affecting their profitability, raised concerns about the preventive role that compliance has in the banking sector. Having said this, we present below Figure 6 that depicts the fines imposed only by UK Financial Conduct Authority (FCA), and US Office of Foreign Assets Control (OFAC), within 2008-2014, which further justifies our point. The significant increase of the amounts in the last two years should also be noted.

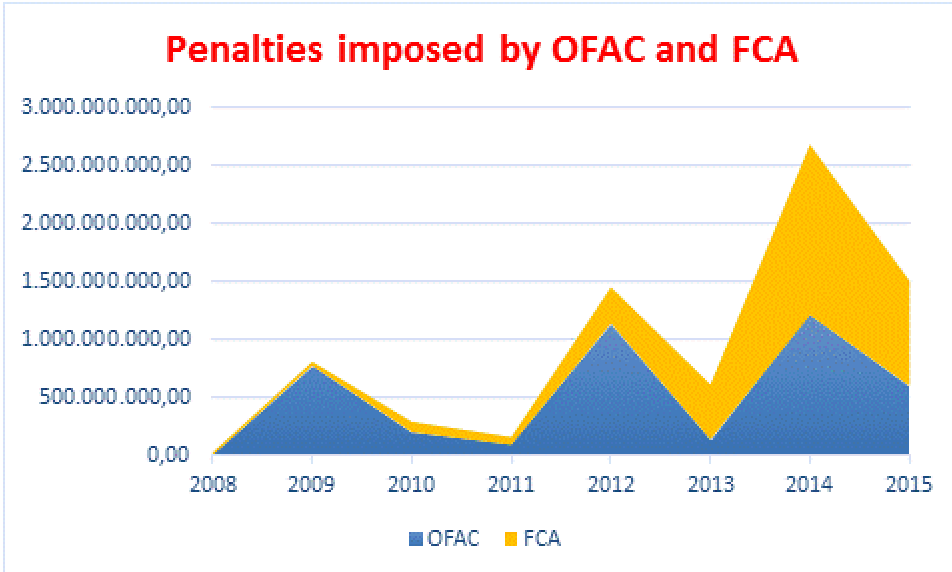

Figure 6: Penalties imposed by US and UK authorities

The Table below depicts just few of the fines imposed by OFAC[47] to significant banks for violations of its regulations.

Table 3: List of Banks penalized by OFAC

OFFICE OF FOREIGN ASSETS CONTROL (OFAC) FINES IMPOSED AFTER 2010		
BANKS	YEAR	AMOUNT OF FINE IN USD ($)
BARCLAYS	2010	176.000.000,00
JPMorgan Chase Bank N.A	2011	88.300.000,00
HSBC	2012	375.000.000,00
ING Bank N.V.	2012	619.000.000,00
BNP PARIBAS	2014	963.619.900,00
Commerzbank AG	2015	258.660.796,00
CREDIT AGRICOLE	2015	329.593.585,00
TOTAL		2.810.174.281,00

As far as FCA is concerned, we refer only the latest significant fines that it has imposed, namely:

47 OFAC civil penalties and enforcement, available: https://www.treasury.gov/resource-center/sanctions/CivPen/Pages/2015.aspx

i. 23.4.2015: A *£227 million ($340 million*) fine to Deutsche Bank AG, for LIBOR and EURIBOR-related (collectively known as IBOR) misconduct. The fine is so large because Deutsche Bank also misled the regulator, which could have hampered its investigation[48].

ii. 5.5.2015: A *£117 million* fine to Lloyds Bank Plc, Bank of Scotland Plc and Black Horse Ltd for failing to treat their customers fairly when handling Payment Protection Insurance (PPI) complaints between March 2012 and May 2013[49].

iii. 20.5.2015: A fine of *£284 million* to Barclays Bank Plc for failing to control business practices in its foreign exchange (FX) business in London[50].

iv. 11.5.2014: Fines of *£1,114,918,000 ($1.7 billion)* for failing to control business practices in their G10 spot foreign exchange (FX) trading operations to Citibank N.A. *£225,575,000 ($358 million),* HSBC Bank Plc £216,363,000 ($343 million), JPMorgan Chase Bank N.A. *£222,166,000 ($352 million),* The Royal Bank of Scotland Plc *£217,000,000 ($344 million)* and UBS *AG £233,814,000 ($371 million*) [51].

Although the above mentioned fines can be absorbed from the majority of these significant banks due to their capitalization, the risk for them to fail always exists. For example, two of the penalized banks are under state aid. Namely, ING received recapitalization aid of €10 billion from the Dutch State[52] and RBS accordingly received a state recapitalization aid of £20 billion (€22 billion), giving the state a 70% stake in RBS[53].

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48 http://www.fca.org.uk/news/deutsche-bank-fined-by-fca-for-libor-and-euribor-failings

49 http://www.fca.org.uk/news/lloyds-banking-group-fined-for-failing-to-handle-ppi-complaints-fairly

50 http://www.fca.org.uk/news/press-releases/fca-fines-barclays-for-forex-failings

51 http://www.fca.org.uk/news/fca-fines-five-banks-for-fx-failings

52 http://europa.eu/rapid/press-release_IP-08-1699_en.htm?locale=en

53 http://europa.eu/rapid/press-release_IP-09-1915_en.htm

It is noticeable what Bank of England states in its Financial Stability Report (Issue No.37 July 2015): «*Since 2009, UK banks have paid almost £30 billion in fines and redress costs, roughly equivalent to the private capital they have raised in the same period". [54]*

The following extract from UBS Annual Report 20 F (submitted to SEC)[55] expresses in a very explanatory way the implications of the ineffective management of compliance risk in the profitability and soundness of banks and the continuity of business:
"…We continue to be subject to a large number of claims, disputes, legal proceedings and government investigations. The extent of our financial exposure to these and other matters is material and could substantially exceed the level of provisions that we have established. We are not able to predict the financial and other terms on which some of these matters may be resolved. Litigation, regulatory and similar matters may also result in non-monetary penalties and consequences. Among other things, a guilty plea to, or conviction of, a crime could have material consequences for us. Resolution of regulatory proceedings may require us to obtain waivers of regulatory disqualifications to maintain certain operations, may entitle regulatory authorities to limit, suspend or terminate licenses and regulatory authorizations may permit financial market utilities to limit, suspend or terminate our participation in such utilities. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorizations or participations, could have material consequences for us".
Respective statements in Annual Reports of all the penalized banks, prove that the "Management" acknowledges and accepts the impact of compliance failures in financial performance and continuity of operations as well.

Further in our analysis, we examined the way in which, if any, the companies sought to gain competitive advantage from their compliance with the new intensive regulatory framework. Through SPSS program we developed frequency data, as Figure 7 shows, presenting the answers of our respondents. Nineteen respondents believe that companies can gain competitive advantage from compliance using their reputation to

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54 Bank of England Financial Stability Report ,Issue No.37, July 2015 page 34 available: http://www.bankofengland.co.uk/publications/Documents/fsr/2015/fsrfull1507.pdf
55 Annual Report 20-F 2015 of UBS page 64 available: http://www.sec.gov/Archives/edgar/data/1114446/000119312512115964/d308675d20f.htm

improve their overall public image and gain customers trust. Four participants think that improving risk management will help the companies improve their financial performance and three participants consider that they could gain competitive advantage by using their reputation to build better relations with the supervisor. It should be noted that compliance's role in structuring new types of products or services by exploitation of regulation is not evaluated as important.

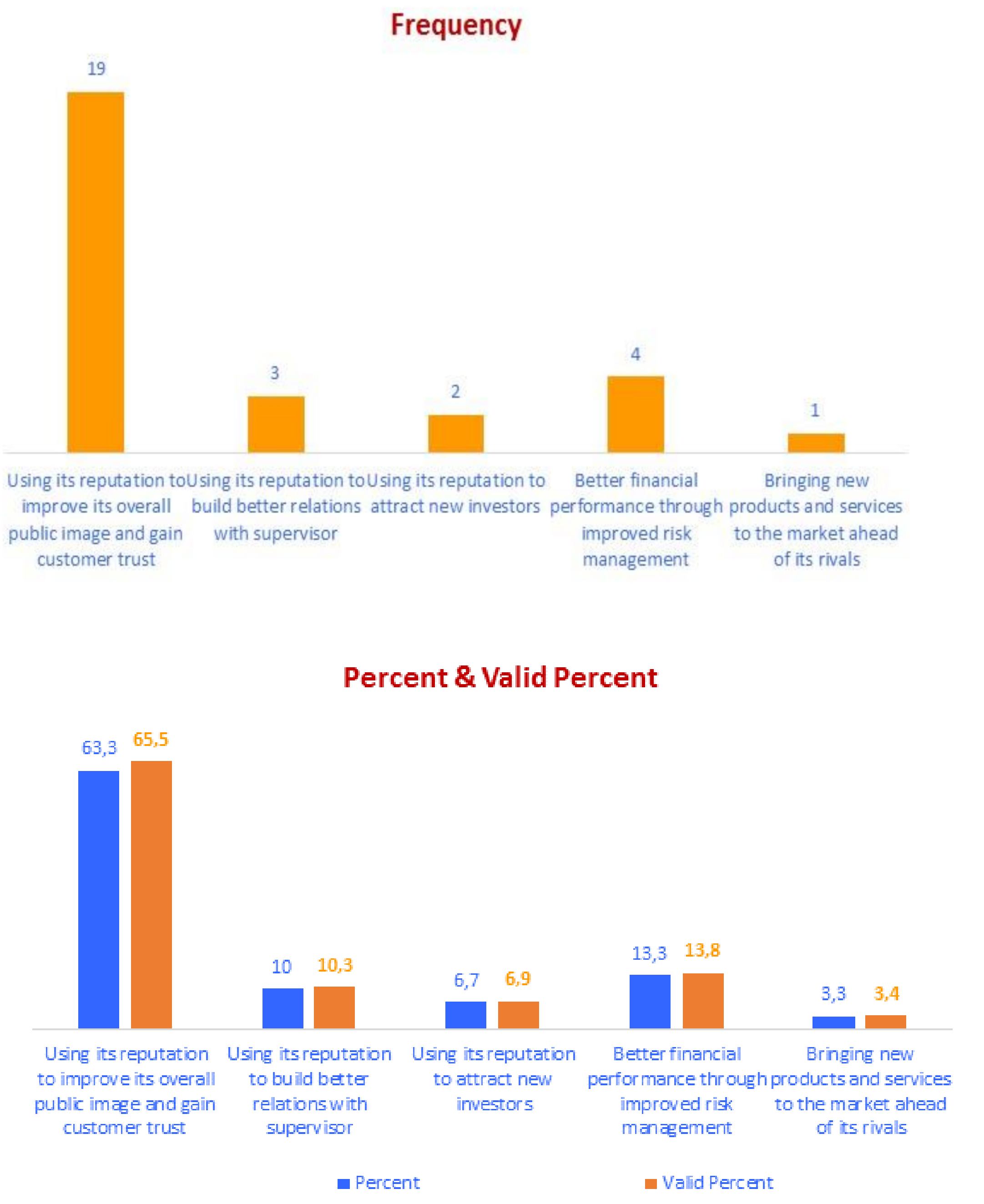

Figure 7: Frequency data for Question 3 (Output by SPSS)

After that, we thought it would be useful to examine the opinion of the participants about compliance and the role it should have in the company. So we asked them if they agree with the phrase that “A proactive focus to compliance can create an essential competitive edge”. As Figure 8 depicts, more than half, which is a significant percentage, strongly agree that companies should pay more attention to their compliance sector because this could be a source of competitive advantage. 30% slightly agree, but what is important to be mentioned, is that over 80% agreed with the above phrase. Those who disagree constitute only 10%. It is obvious that the perception is that companies facing similar rules and regulations can gain competitive advantage over their peers by doing a relatively better job in managing compliance-related risks.

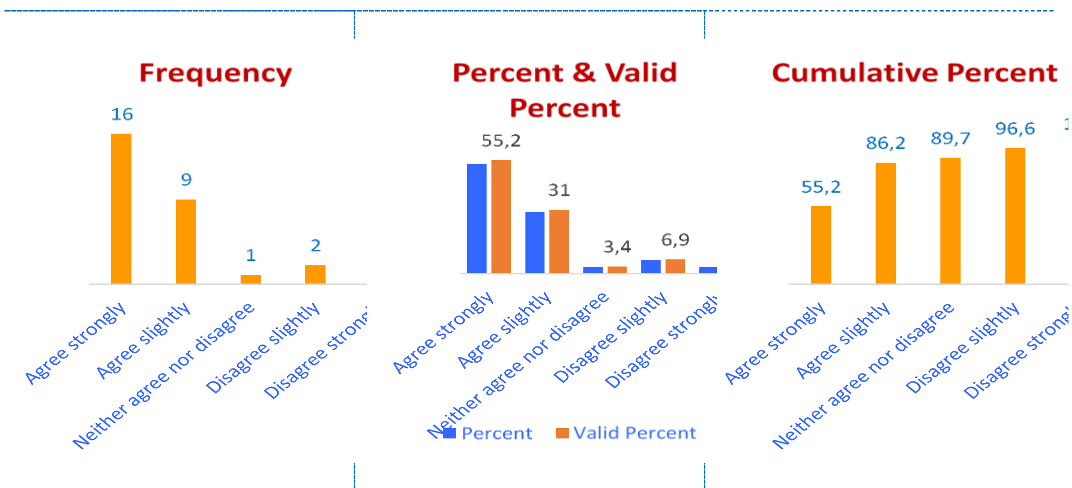

Figure 8: Frequency data for Question 4 (Output by SPSS)

However, compliance alone is not considered as a competitive advantage. It can be combined with other activities of the company, such as investments in technology and also help other parts of the business. In this sense, executives were asked whether any investments in technology with the goal of achieving compliance would help other parts of business. As Figure 9 depicts, 22 respondents out of 29 strongly agree and 6 others slightly agree with this view. In total the “agree” option in response to this question was selected by 96.6% of the respondents.

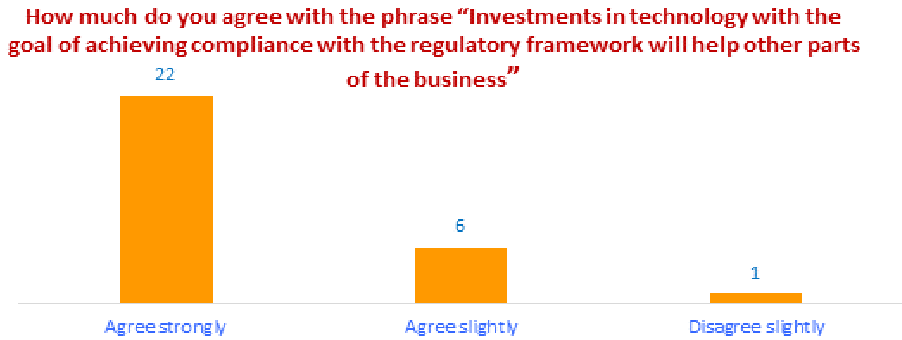

Figure 9: Statistics for Question 5

The increasing information and data required by the regulatory framework the last years for reporting purposes and monitoring has become a big burden for the banking sector internationally. As a matter of fact, a lot of money was invested in I.T. infrastructure designed to provide all the necessary data for reporting purposes, or for aligning with anti-money laundering /counter terrorist financing /tax legislation. Nevertheless, human resources used to collect, assess and present the aforementioned data have increased significantly, increasing simultaneously the relevant cost. On the other hand, this obligatory accumulation of data could be exploited in business level for assessing and mitigating risks for the bank itself, for serving the scope of other legislative requirements. Last but not least, all this data could be used for marketing and positioning purposes (segmentation of clientele and accordingly the positioning of new products and services according to their social, financial profile).

Companies work to achieve compliance as best as they can but it is not an easy task. Trying to succeed in the field of compliance may fail, so we asked respondents if a gap or a failure in achieving compliance could influence adversely the company. Figure 10 below shows that all the participants agree, either strongly or slightly, that a failure would cause serious problems to the business, indicating total agreement around the question.
This is a crucial point in our analysis, because it strengthens the hypothesis we are trying to prove through this research, which is that compliance is a very important tool for companies of the financial sector. Compliance's role is of paramount importance in

succeeding and improving corporate governance efficiency in the banking sector, otherwise enterprises may have serious functional problems and may eventually be forced to cease their activities.

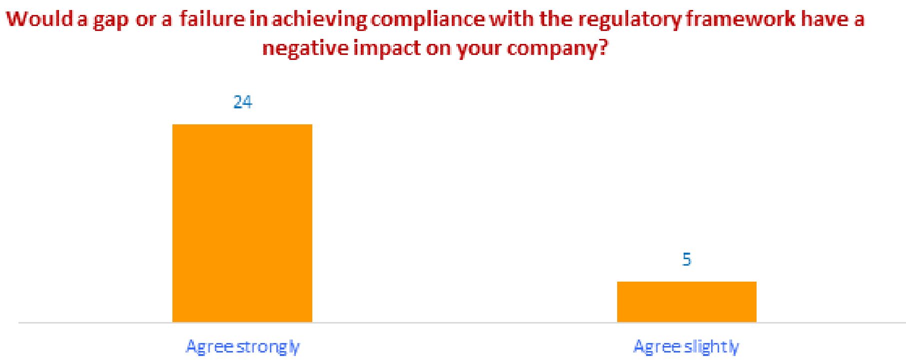

Figure 10: Statistics for Question 6

We consider that the following failures of certain significant banks and the related cost for incidents of non-compliance and miss-conduct, strongly support our suggestion.
Namely:

i. US Federal Reserve (Board) announced on:

- ✓ 5.2.2016, *a $131 million penalty against HSBC North America Holdings, Inc. and HSBC Finance Corporation for deficiencies in residential mortgage loan servicing and foreclosure processing*[56].
- ✓ 20.5.2015, *fines of more than $1.8 billion against six major banking organizations for their unsafe and unsound practices in the foreign exchange (FX) markets. Specifically: $342 million each for UBS AG, Barclays Bank PLC, Citigroup Inc., and JPMorgan Chase & Co.; $274 million for Royal Bank of Scotland PLC (RBS); and $205 million for Bank of America Corporation*[57].
- ✓ 12.3.2015, *a $200 million penalty and consent cease and desist order against Commerzbank AG, of Frankfurt am Main, Germany, relating to violations of U.S. sanctions, the Bank Secrecy Act, and other anti-money laundering laws*[58].

[56] http://www.federalreserve.gov/newsevents/press/enforcement/20160205a.htm

[57] http://www.federalreserve.gov/newsevents/press/enforcement/20150520a.htm

[58] http://www.federalreserve.gov/newsevents/press/enforcement/20150312b.htm

- ✓ 30.6.2014, a $508 million penalty against BNP Paribas, S.A., Paris, France, for violations of U.S. sanctions laws[59].

ii. U.S. Commodity Futures Trading Commission (CFTC) on 12.11.2014, *orders five Banks to pay over $1.4 Billion in penalties for attempted manipulation of Foreign Exchange Benchmark Rates. Specifically, $310 million each for Citibank and JPMorgan, $290 million each for RBS and UBS, and $275 million for HSBC.*[60]

iii. European Commission on 4.12.2013 *has fined 8 international financial institutions a total of € 1.712.468.000 for participating in illegal cartels in markets for financial derivatives covering the European Economic Area (EEA). Four of these institutions participated in a cartel relating to interest rate derivatives denominated in the euro currency. Six of them participated in one or more bilateral cartels relating to interest rate derivatives denominated in Japanese yen*[61].

It should be noted that almost in all the Annual Reports of the above mentioned banks there is a reference about the implications of these fines in financial results, namely in provisions and decrease of profits because of the regulatory expenses.

For example in 10-K Annual report of Citigroup for 2014, is stated among others:

"*Expenses increased $5.1 billion to $6.1 billion, largely driven by the higher legal and related expenses ($4.4 billion compared to $172 million in 2013) as well as increased regulatory and compliance costs and higher repositioning charges.*[62]

"Citi Is Subject to Extensive Legal and Regulatory Proceedings, Investigations and Inquiries That Could Result in Significant Penalties and Other Impacts on Citi, Its Businesses and Results of Operations."[63]

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[59] http://www.federalreserve.gov/newsevents/press/enforcement/20140630a.htm

[60] (RELEASE: PR7056-14) http://www.cftc.gov/PressRoom/PressReleases/pr7056-14

[61] http://europa.eu/rapid/press-release_IP-13-1208_en.htm

[62] Citigroup Annual 2014, 10-K Form (page 45) available: http://www.citigroup.com/citi/investor/quarterly/2015/ar14c_en.pdf

[63] Citigroup Annual 2014, 10-K Form (page 78) available: http://www.citigroup.com/citi/investor/quarterly/2015/ar14c_en.pdf

In the Global Financial Crisis of 2007, Citigroup was rescued by the Treasury and the Fed, because was viewed as "too-big-to-fail institution. This is not the case for any systemically important financial institution (SIFIs) any more, after the launch of exhaustive US and European legislation about resolutions.

Another problem that may arise from a gap or a failure of the company to achieve compliance with the new intensive regulatory framework, is a higher cost of capital. We brought forward this dilemma to the executives. Figure 11 presents the relevant frequency data, according to which over 80% of the participants agrees (strongly or slightly) that a failure in achieving compliance may result in higher cost of capital. The individuals who slightly disagree or are neutral are not persuaded yet for such a result.

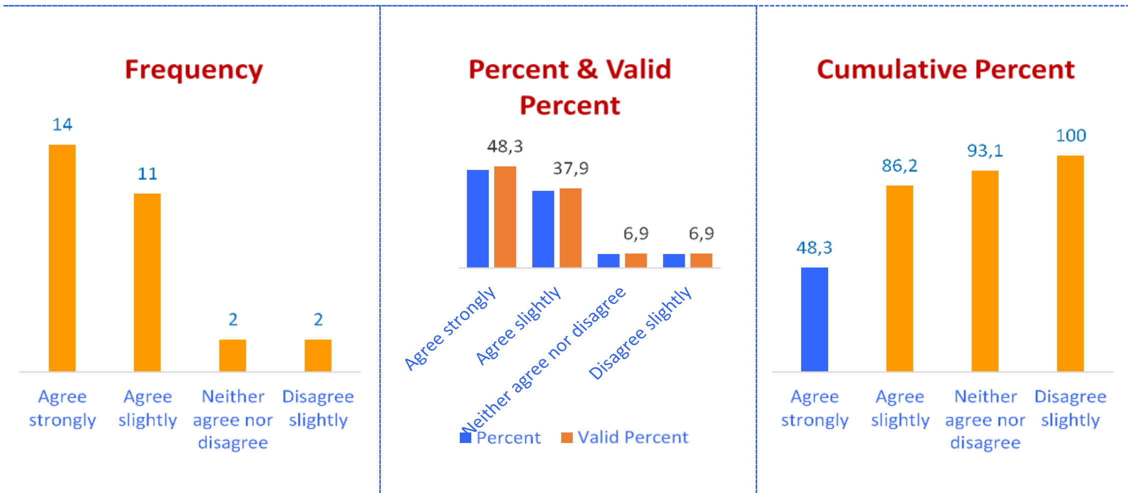

Figure 11: Frequency data for Question 7 (Output by SPSS)

The problems that may occur from failure to comply with the regulatory framework are many, and an important one may be constraints that may be caused on new product development, that the company will have to challenge. Figure 12 below shows clearly what the executives think about it. Specifically, 12 of our respondents strongly agree and equal number "agree slightly" with the statement that a gap in achieving compliance may create constraints for the financial sector in developing new products. Additionally, there are also 2 individuals who are indifferent about any answer and 2 that disagree.

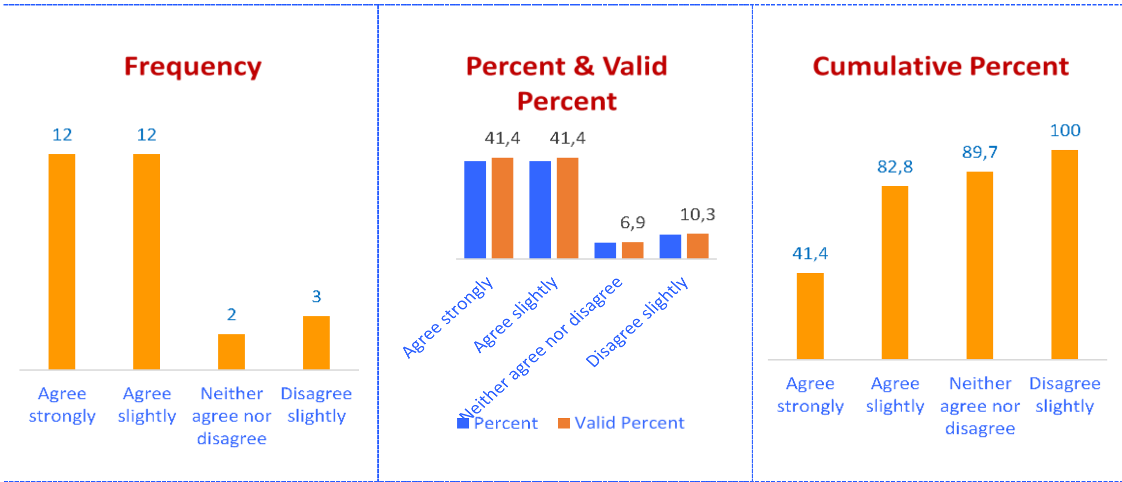

Figure 12: Frequency data for Question 8 (Output by SPSS)

With the next two questions we tried to measure the impact of a failure to comply on the relationship of the company with its customers.

First, we asked the executives if a gap or a failure in achieving compliance with the regulatory framework could result in losing customers. The research showed us that 25 out of 29 respondents in total, strongly or slightly agree with that fact. The results prove that the majority of executives acknowledge the damage that compliance failures could cause to the company's reputation.

Afterwards, we examined whether the company can turn things around and try to attract customers, and if this has a higher cost for the company. The results show us that indeed attracting new customers is perceived by 18 persons (who strongly and slightly agree) to be much more expensive after a compliance failure. However, a significant part of our respondents have doubts about this and neither agree or disagree. The following Figure depicts the results of Question 10.

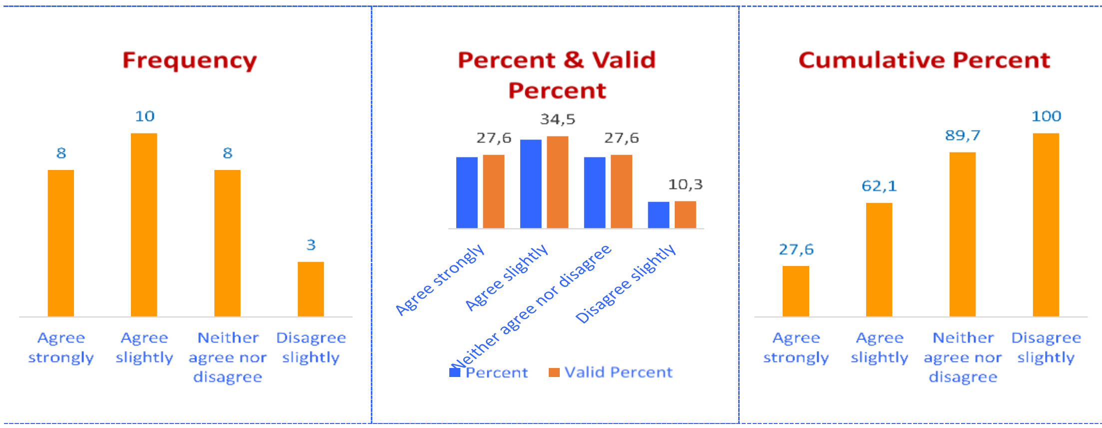

Figure 13: Frequency data for Question 10 (Output by SPSS)

Most of our respondents (41.4%), when asked about the effect on returns, of a weakness to comply with the regulations, indicated that they are not certain that returns could be affected thereof, followed by a minimum percentage difference by those who slightly agreed (37.9%). 5 out of 29 participants claim that a failure to comply will have a negative impact on returns, as shown in Figure 14.

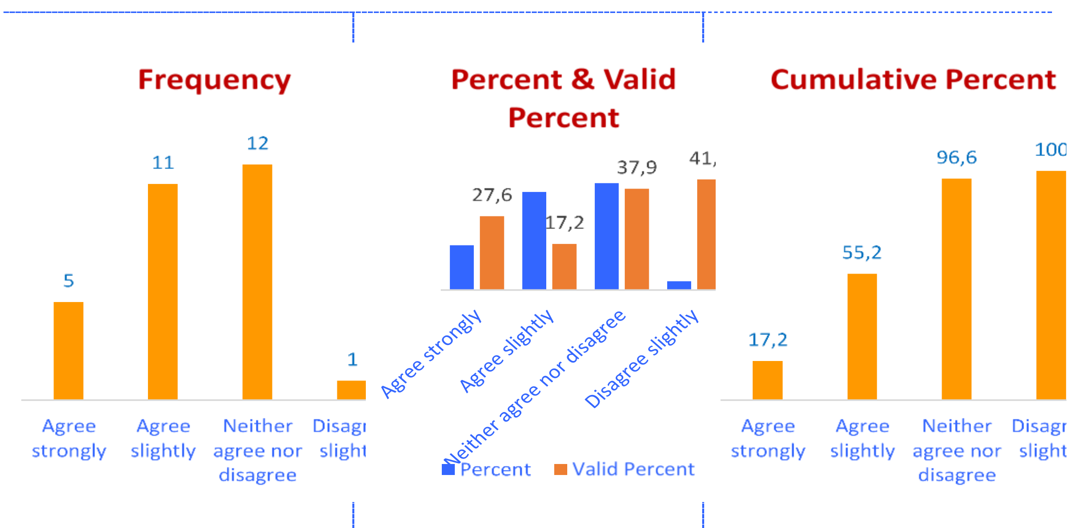

Figure 14: Frequency data for Question 11 (Output by SPSS)

Penalties or fines can reduce returns of the company and decrease its profitability as analyzed previously, but this is the only easily measurable financial parameter for compliance failures, which may explain the results in this question.

Nevertheless, banks in order to meet the growing number of penalties they face and keep costs under control, have to upgrade the profile of the Compliance Function inside the organizations and establish its value, because related risks from failures in achieving compliance can limit the company's ability to grow, achieve profitability and compete effectively.

We further explored the risks and the consequences that a company faces while trying to achieve compliance, and how effectively companies manage to deal with compliance risk. Most participants (62.1%) answered that their companies confront compliance risk effectively, and manage to avoid penalties that could be imposed as a result of a failure. The remaining 37.9% answered that they were very effective, which was expected, since most companies conduct regulatory and compliance risk assessments frequently so as to manage those risks.

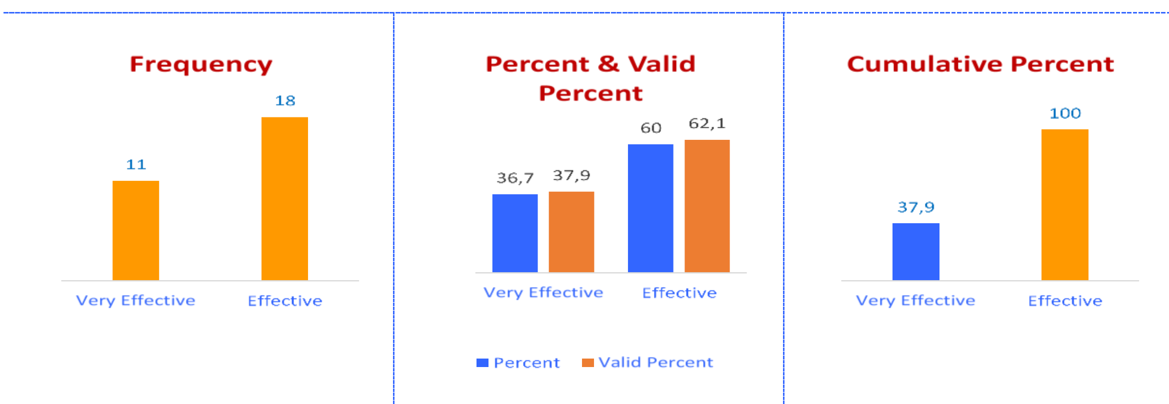

Figure 15: Frequency data for Question 12 (Output by SPSS)

Many companies follow a variety of practices, such as analyzing business compliance key performance indicators, demonstrating that they are determined to upgrade and establish the Compliance Function as a dynamic and vibrant component of their business, in their effort to increase their efficiency. Though we need to be sure that raising awareness and communication of compliance concerns are not suppressed by the legal function.

Compliance can be defined as activities connected with the act of complying with laws and regulations, or it can mean money spent responding to compliance issues. To avoid spending money, a company must be efficient when dealing with compliance breaches. After asking the executives about how well companies are handling such breaches, we came to the conclusion that companies can manage compliance contraventions very well, as it is shown in the Figure below. All of the respondents (100%) said that the financial sector is dealing efficiently with compliance breaches. 62.1% of them chose the "Efficient" answer option and the remaining 37.9% chose the "Very Efficient" answer option.

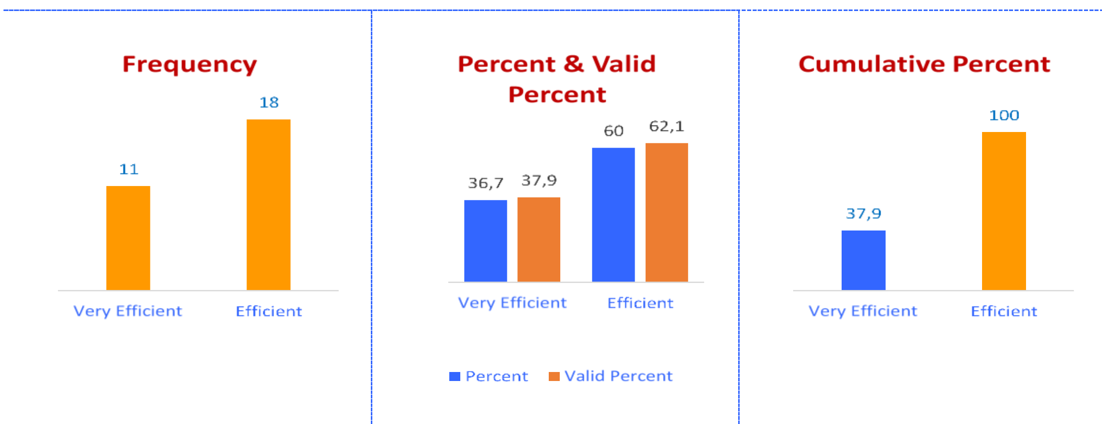

Figure 16: Frequency data for Question 13 (Output by SPSS)

In order to comply with the laws and the regulations, not only staff members of a company need to have awareness of Compliance Function, but the company itself has to keep in touch with the regulators and build a good relationship with them. This will enable companies to have greater consultation and solve compliance issues more easily. We often see overlaps or gaps in the ways in which monitoring and testing around compliance issues is performed, which suggests an opportunity for further communication with regulators in order to obtain their assistance and feedback regarding their expectations on how compliance issues shall be administered.

So, how effective is a company at building good relationships with the regulators? More than three-fourths (72.4%) of the participants, said that companies are very effective in their relations with the regulators. This confirms that, especially for banks, keeping in touch with the regulators is a priority. The remaining 8 participants said that banks are effective in building such relationships.

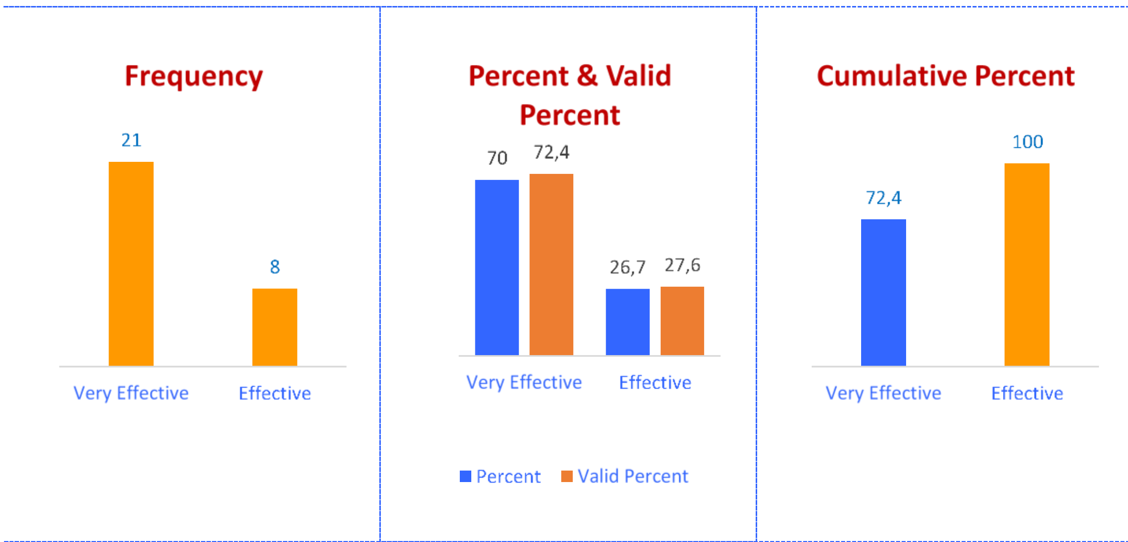

Figure 17: Frequency data for Question 14 (Output by SPSS)

Until now we addressed the Compliance Function separately as an internal control function within the organizations, but as we know, companies also have the other two internal control functions, risk management and internal audit. So, within enterprises these units must be able to work in harmony together and in cooperation with one another as they represent the 3 pillars of internal control system.

To figure out how efficient companies are at achieving co-operation between compliance and the other 2 pillars of the internal control system we asked 29 executives about their opinion. Nearly 70 percent (69%) of our respondents said that their companies manage to achieve co-operation among the three internal control functions. Finally, only 2 of the respondents were not certain about how the relationship between the internal control functions of their company is.

Figure 18: Frequency data for Question 15

All companies must deal with hyper regulation. Laws and regulatory requirements of course vary across sectors and geographies. But all companies in the same sector and/or operating in the same regions face the same or very similar regulatory pressures.

The Compliance Function should actively participate in setting corporate strategy. This means that companies have to spend more time on devising plans to comply with the regulatory framework, devote more resources and money to implement these plans, apply technology tools which can enable companies to increase efficiency and reduce the costs of compliance management, by looking for new markets, new partners, and launch new products to sustain their growth.

By examining the Figure 19, we can see that companies understand the need to further develop their compliance and start focusing and extending their efforts in areas that will help them achieve regulatory compliance. 62.1% of respondents has informed us that businesses increased significantly the number of teams within the Compliance Function or the training of staff in order to be able to recognize regulatory issues that can harm the company and deal with them immediately. Another 8 individuals stated that there was an increase over the past years in the amount of time and resources the company devotes to achieving regulatory compliance. Further, 10% said that there was no increase at all in terms of time and resources the company dedicated to achieving compliance.

In general, we assume that over the last years, especially considering the adverse economic environment, companies seek to secure their profitability by strengthening their Compliance Function.

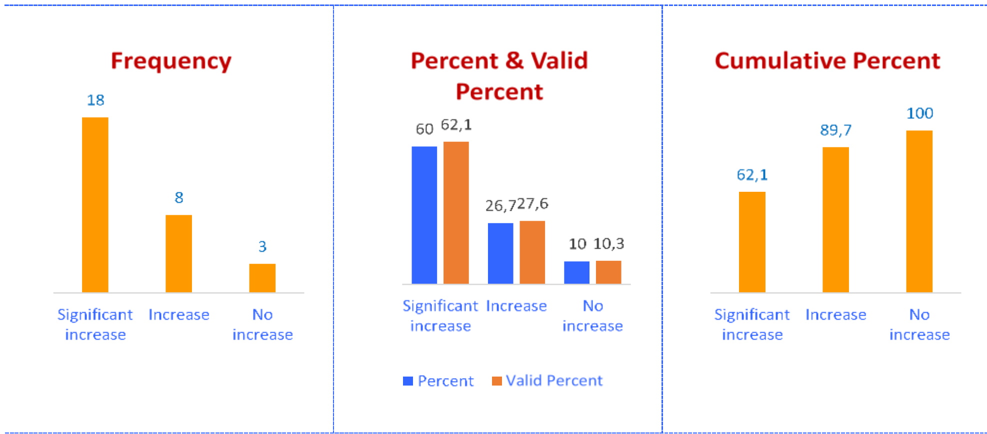

Figure 19: Frequency data for Question 16 (Output by SPSS)

It is commonly known that, after the global economic crisis, companies took measures to protect their assets and profitability from the dangers that a financial crisis entails and the regulatory framework became stricter. Thus we asked the executives what they thought its impact on profitability of their company was. Figure 20 below is pretty clear about the results. Most of the participants responded that they saw a neutral or a negative impact, which means that either they already took care of their compliance issues and did not see such a difference following the new intensive regulatory framework, or that they lost money because they paid fines due to a failure to comply or because their cost base increased due to application of the new framework. What is interesting though, is that a significant number of executives (4 out of 29) told us that it had a positive impact on their company.

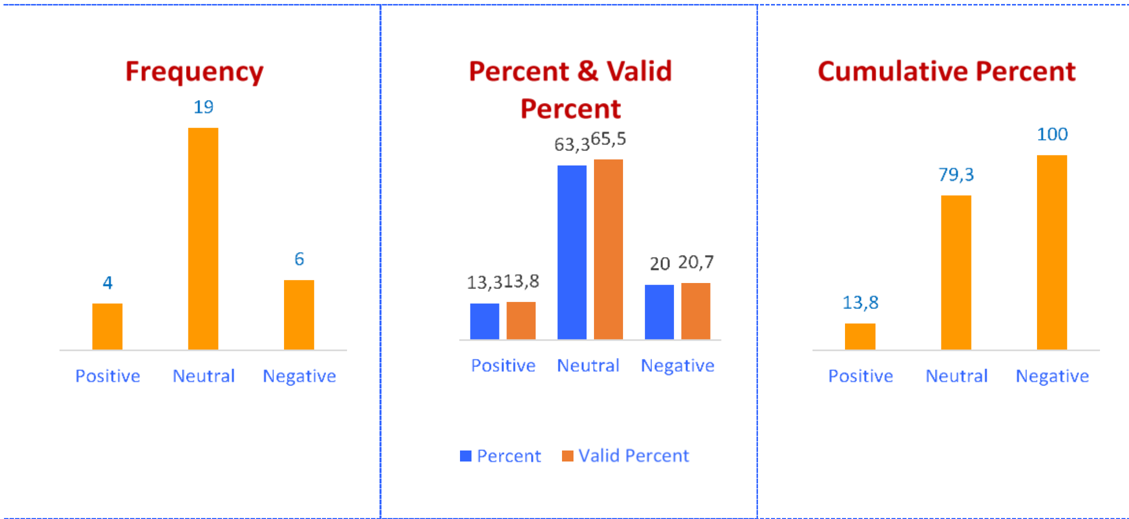

Figure 20: Frequency data for Question 17 (Output by SPSS)

The next thing we wanted to see was if businesses consider that the new regulatory framework affects their efforts to attract new investors. Figure 21 shows that the majority replied that the new intensive regulatory framework has no such influence. 27.6% however, said that the new framework will have a positive impact on attracting new investors. That may not be directly evident, but through increase of operational efficiency and effectiveness, a company can gain investors by promoting its reputation. It is noticeable that there is a small percentage which believes that the regulatory framework enacted will have a negative effect.

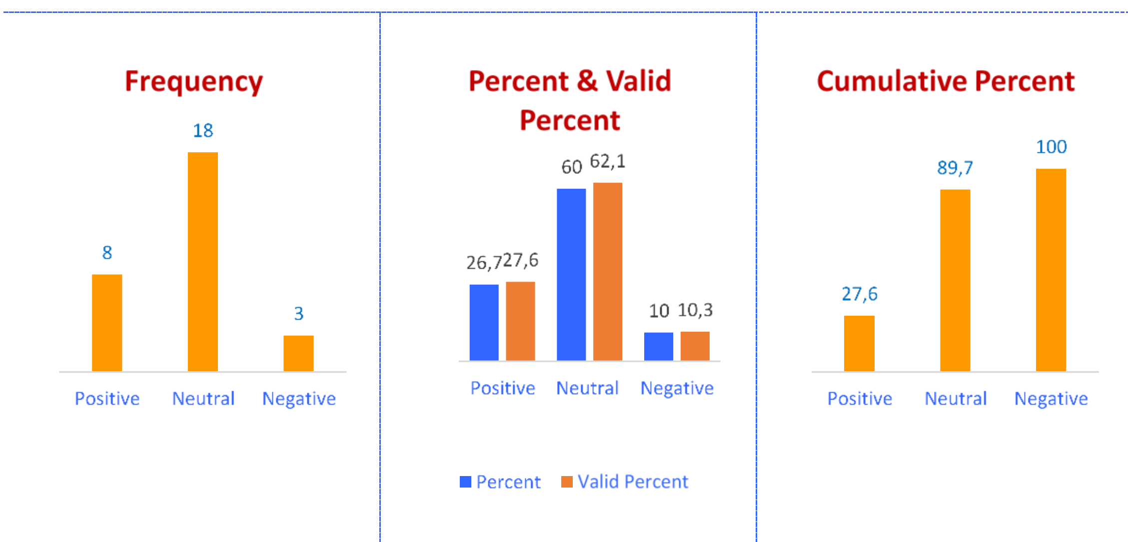

Figure 21: Frequency data for Question 18 (Output by SPSS)

Companies face a range of risks as they pursue strategies and initiatives to drive growth and profitability. For instance, many companies focus on innovation initiatives by launching new products and improving the customer experience. Those that manage their compliance related risks more efficiently, may be able to pass associated cost savings to customers, in the form of lower prices, and to investors, in the form of greater returns. This means that they can easily attract investors or clients and gain a competitive advantage against their peers.

Based on these facts, we tried to measure the impact of the regulatory framework enacted after the financial crisis on the companies' client base. As Figure 22 shows, 65.5% of respondents think that the client base of their company was not affected due to the new intensive legislation. However according to 20.7% of the respondents, the client base of businesses decreased, while only the remaining 13.8% stated that the regulatory framework had a positive impact on their client base.

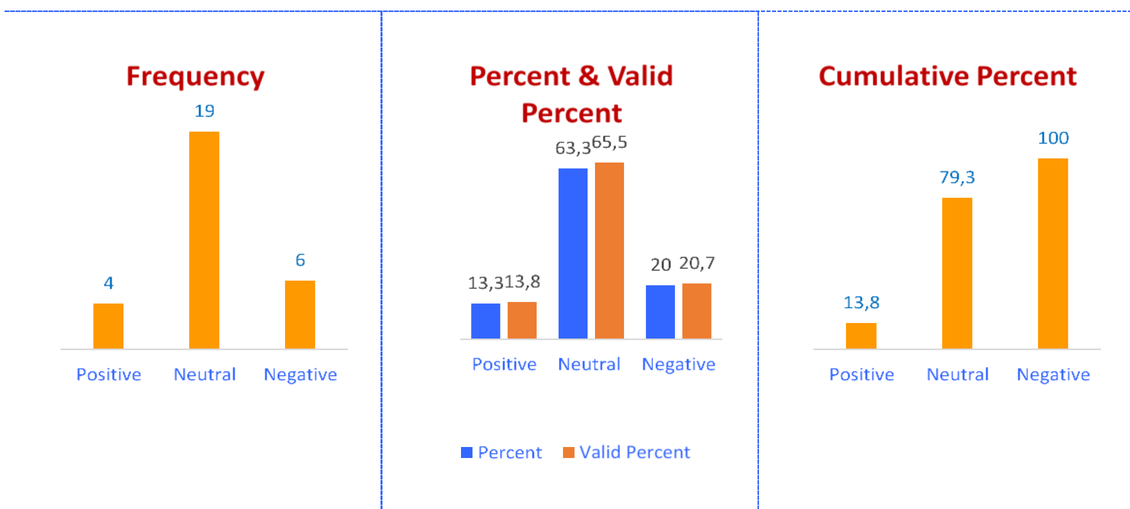

Figure 22: Frequency data for Question 19 (Output by SPSS)

Finally, the last question explored the impact of the stricter legislation adopted after the financial crisis on the ratings of companies by rating agencies.

Credit rating agencies, as firms that evaluate and rate a debtor's capability to pay back debt and the possibility of default, rate among others the creditworthiness of Banks.

In our case, we examined how the ratings of our sample companies may have altered because of the regulatory framework enacted. Looking at the Figure below we can see that half of the respondents stated that rating agencies did not change the rating of the company where they work. 31% said that the rating agencies rated their company more positively following the financial crisis and after the new regulatory framework was enacted. The remaining stated that the rating of their companies was lower than previously.

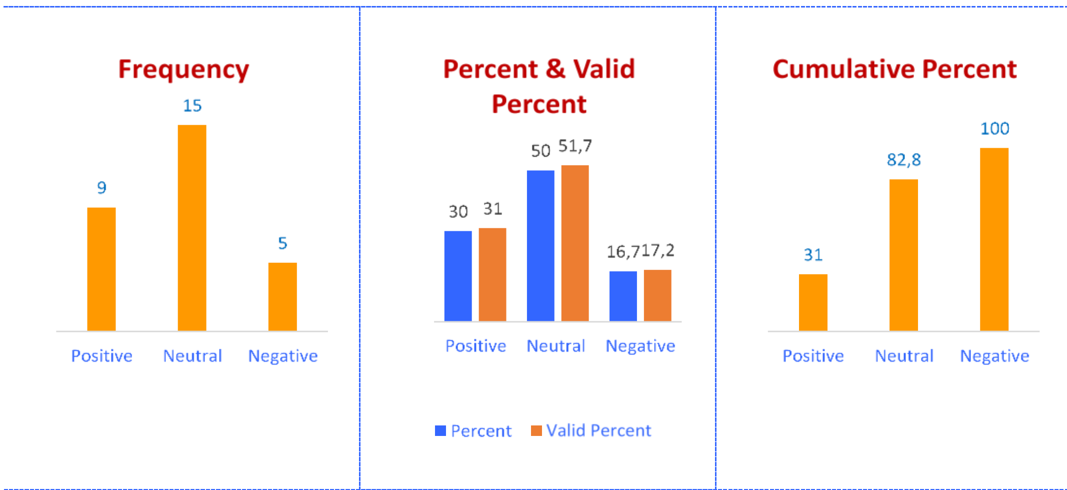

Figure 23: Frequency data for Question 20 (Output by SPSS)

What is noticeable in the last four question is that the majority of the respondents assess neutral or even negative the impact of the new regulatory framework (after the crisis) in all aspects.

It goes without saying that the transition from the lack of regulation to over-regulation is difficult and more time will be needed for its proper assessment.

5. Discussion of Findings

In this chapter, we will further discuss and interpret the results of our investigation and we will pursue to deduce whether they were expected, given the volatile economic conditions that followed the financial crisis of 2007 and within the new stricter regulatory environment that was formed.

The scope of our research was to examine the relation between Compliance Function - as a key ingredient of sound corporate governance - and profitability in credit institutions. In that context, we reviewed the perceptions of highly-ranking executives of the banking sector concerning the impact that compliance function currently has on their day-to-day job.

The outcome obtained from the research was generally expected, since in the banking sector the presence of Compliance Function is obligatory according to the regulatory framework, as it was analyzed in previous chapters. The results suggest that Compliance Function is tightly linked with profitability and strategy of banks. The respondents show a satisfactory understanding of the role of the Compliance Function according to the relevant legislation.

From their responses they obviously understand Compliance's role as it is defined by the Basel Committee: *"Compliance Function is a key component of the bank's second line of defense. This function is responsible for, among other things, ensuring that the bank operates with integrity and in compliance with applicable, laws, regulations and internal policies".*

According to the research, the majority of the participants believe that Compliance can make banks safer and more stable, indicating thus that sound Compliance Function is generally accepted to be of great importance.

Moreover, there were some results that will be further analyzed.

Compliance Cost- Compliance failure cost

Our inquiry also examined whether any negative consequences for the banks would be expected due to the application of new regulatory framework. The responses indicated that the implementation of the regulatory framework is usually linked with increased cost for banks. In view of compliance costs though, one should take into account a number of diverse aspects, such as the cost of compliance activities (cost of I.T. solutions, training programs, etc), costs associated with handling acute non-compliance issues, as well as reputation cost.

On the contrary, Compliance breeches cost could be tremendous. In particular, in the majority of cases sanctions and fines imposed by the supervisory authorities and the competent political authorities are followed by the enforcement of penalties in the auspices of litigation process (lawsuit and in general legal actions) on the basis of the abovementioned condemning decisions of the regulatory authorities (e.g. Libor /Euribor misconducts, AML sanctions, subprime mortgage). These actions can have tremendous consequences for financial institutions as they could materially affect their operations, their financial results, their customers. Potential large unexpected fines or litigations also affect capitalization, as they result in increased needs of capital in order to manage efficiently the risk of insolvency.

The majority of the participants also answered that a failure to comply could possibly result in higher costs in attracting new customers, depicting their perception of the reputation of a bank as one of its most valuable assets, especially in periods of volatile financial conditions. In that context it is believed that Compliance Function can contribute greatly in forming the bank's good fame and establishing strong relationships with its clientele.

On the other hand concerning the effect of compliance failures on returns, most of our respondents indicated that they are not certain that returns could be affected by a failure. This answer indicates that there should be further research on this topic in the long-term, when more historical financial data is going to be available and measurable.

Compliance risk management

"Compliance risk" as defined by the Basel Committee is: "*the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities"*.

This definition deduces that the compliance failure cost cannot easily be measured. Thus, the continuous and on a proactive basis identification, measurement, reporting and advising on compliance risk associated with the company's activities is essential.

In order to achieve that, Compliance should cooperate closely with business lines, in order to allocate any possible compliance risks and suggest the appropriate measures for their management.

While examining whether a proactive focus to compliance can create a severe competitive edge, the vast majority of the participants agreed on that. They believe that companies can gain competitive advantage from compliance using their reputation to improve their overall public image and gain customers' trust. The above outcome emphasizes that companies operating in a similar regulatory environment can gain competitive advantage over their peers by effectively managing compliance-related risks. The participants furthermore stated that the management of compliance risk in their companies is effective or very effective.

Advice, Guidance, Education

Among the basic responsibilities of compliance as analyzed in literature chapter is advice and guidance.

Some respondents, as expected, fear that compliance with the new regulatory framework could hamper the company's ability to introduce new products and services, since when designing new products they should also seek for their alignment with stricter regulations. Others think that it will adversely affect the bank's financial performance and prevent it from growing financially, while some believe that it will harm the company's competitiveness. Few of the participants believe that it will make it more difficult to captivate and engage customers and that it will shrink its balance sheet. The above results depict that there is a strong debate on the impact of the over-regulation on the operation of banks, which is anticipated to certain extend due to the radical reforms that occurred in the last decade in the banking sector.

But according to Basel Committee, Compliance Function should manage compliance risks associated with "….*the development of new products and business practices, the proposed establishment of new types of business or customer relationships, or material changes in the nature of such relationships".*

Taking the above into consideration, the Compliance Function should be involved and emphasize its added- value to the setting of corporate strategy. Since a plethora of new rules and regulations (on capital adequacy, liquidity, risk management etc) affect the assessment of the viability of the company by the regulatory authorities, compliance can assure and promote "proper decision-making", with the consideration of possible reputation and compliance risks.

As the assessment of the legal environment is one of the key external factors in any SWOT analysis it could be easily understood how valuable the participation of compliance people in the development of any strategy (business, corporate, marketing, CSR) is. Who can evaluate better the threats and the opportunities of the legal and regulatory environment than the Compliance Function? The insight of Compliance is significant and contributes to the achievement of the company's strategic objectives and growth goals.

Statutory responsibilities and liaison

As far as relations with the regulators are concerned, the majority of participants said that companies are very effective in their relations with the regulators and always keeping in touch with them, indicating thus that keeping in touch with the regulators is a priority for banks. This outcome was anticipated since good relations with the regulators are essential in a sector so over-regulated, as the banking sector and is in accordance with its -predicted from the legislation- responsibilities.

General Comments

In general, by reviewing the results of our inquiry we can assume that over the last years and throughout the adverse economic environment, companies are looking to secure their profitability by strengthening their Compliance Function. All executives agreed that a failure of compliance could cause serious problems to the business, which strengthens the point that compliance is a very important tool for banks, plays a key-role in corporate governance efficiency and consists a competitive advantage.

The outcome was overall expected and was in accordance with other similar researches. For example, in the 2015 Global CEO Survey[64] conducted by PWC[65], as well as in the Survey of Economist Intelligence Unit (2011) -which was mentioned in Chapter 3- whereby was also found that Compliance after the Global Financial Crisis, has emerged as a significant competitive advantage to business. Moreover it was also supported that, nowadays compliance stands for the new corporate governance, since the new enhanced regulatory framework and the authorities result in compliance΄s blossom[66].

Nevertheless, we strongly believe that in the future the topic should be further examined, when more historical data will be available, in order to establish in a concrete way the strong and timeless contribution of the Compliance Function on the profitability of financial institutions.

Limitations-Suggestions for future research

Although this research was carefully planned in an attempt to produce accurate empirical evidence and to interpret them in the most objective way, we are aware of limitations and shortcomings that should be taken into consideration concerning our findings.

First, the research was based on a limited sample of population (31 participants), comprising of banks, operating in a specific geographical area (mostly Greece and

[64] PwC (January 2015), "A marketplace without boundaries? Responding to disruption", 18th Annual Global CEO Survey.
[65] PricewaterhouseCoopers (now PwC) was formed in 1998 from a merger between Price Waterhouse and Coopers & Lybrand, has a history in client services that dates back to the nineteenth century and today serves 26 industries.
[66] Sean J. Griffith, Corporate governance in an era of Compliance, William & Mary Law Review, Vol. 57, No. 6, 2016 (electronic copy available at: http://ssrn.com/abstract=2766661)

Balkans). Due to the sovereign debt crisis, banks in Greece operate under special conditions (capital controls, liquidity risks, high non performing exposures etc.) and strict supervision (HFSF as major shareholder, DG Comp, etc.). Therefore, the results are influenced from this environment. Future research would be more effective if a bigger sample of firms from the financial sector in general and people stemming from a variety of different jurisdictions and industries sectors will be included. With bigger amount of data, the results can be easily generalizable.

Furthermore in a future research the collection and assessment of financial data would be useful (e.g. profitability ratios of Banks, volatility ratios of the stock price after the announcements of huge fines, the provisions before and after the years of the non-compliance incidents etc). Reputational risk that is mainly connected with compliance failures cannot be easily measured, but any research on this would be value–added. A future research including financial data may better capture the nature of the relationship between compliance and profitability.

Finally it should be pointed out that the research took place in a timing while the regulatory environment is constantly changing and becoming stricter and reporting requirements towards supervisory authorities are continuous, emphasizing thus the key role of Compliance Function. In that context, future studies could be more longitudinal in nature and consider and examine the particular constructs under examination within a longer time duration so as to produce timeless conclusions.

6. Conclusions and Recommendations

Compliance with all applicable laws and regulations will always be a primary responsibility of compliance officers. With over-regulation and other compliance-related threats to business growth, the time is right for compliance officers to upgrade their status within their organizations, and come to be viewed by the business as strategic partners. Its time too for corporate law literature to focus on the significance of compliance in the business strategy and performance.

In this context, it is crucial that the Compliance Function participates in the decision making process in order to act proactively and mitigate or leverage related compliance or reputational risks that could limit the company's growth, profitability and competiveness.

All the previous research and analysis of the views of the role of the Compliance Function and the strategic value it can offer the business, can establish that Compliance Function as a key element of Corporate Governance efficiency in the banking sector, has a strategic and leading role in the soundness of Banks, and is an asset for strategy and profitability.

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Useful links

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- European Central Bank – Banking Supervision: https://www.bankingsupervision.europa.eu/home/html/index.en.html
- European Union website: http://europa.eu/index_en.htm
- Federal Reserve System - Legal actions by the Board or by the Federal Reserve Banks under delegated authority, available : http://www.federalreserve.gov/newsevents/press/enforcement/2015enforcement.htm
- Financial Conduct Authority – Fines available: http://www.fca.org.uk/firms/being-regulated/enforcement/fines/2015-fines
- Internal Revenue Service: https://www.irs.gov/Businesses/Corporations/Foreign-Account-Tax-Compliance-Act-FATCA
- OFAC: https://www.treasury.gov/about/organizational-structure/offices/Pages/Office-of-Foreign-Assets-Control.aspx
- U.S. Security and Exchange Commission: https://www.sec.gov

Appendix

Questionnaire

The role of the Compliance Function, as a key element of Corporate Governance efficiency, in the profitability of the banking sector."

*Required

In which country is your company seated? *

Your answer

What is your primary industry of activity?

- Investment management
- Investment banking
- Corporate banking
- Commercial banking
- Retail banking
- Hedge funds

What is your job title/position?

- Board member
- CEO/Executive member
- Compliance Officer
- Head of Control Unit (Internal audit, Risk Management)
- Head of Business Unit
- Other lower level executive

1. **In which of the subsequent ways do you believe that compliance with the new intensive regulatory framework (after the crisis) will be a positive development for your company or the financial sector in general?**

- It will ensure its stability and safety
- It will ameliorate the relations with external stakeholders
- It will enhance its balance sheet
- It will decrease the volatility in earnings
- It will make it easier to captivate new customers
- It will improve its competitiveness

- It will make it easier to launch new products or services
- It will strengthen its financial results

2. In which of the subsequent ways do you believe that compliance with the new intensive regulatory framework (after the crisis) will be a negative development for your company or the financial sector in general?

- It will expand its cost base
- It will disrupt its capability to launch new products or services
- It will negatively influence its financial results
- It will impair its competitiveness
- It will make it more difficult to tempt and engage customer
- It will shrink its balance sheet

3. In which of the subsequent ways, if any, has your company sought to establish a competitive edge from its compliance with the new intensive regulatory framework?

- Using its reputation to improve its overall public image and gain customer trust
- Using its reputation to build better relations with supervisors
- Using its reputation to attract new investors
- Better financial performance through improved risk management
- Bringing new products and services to the market before of its competitors
- Greater agility and business flexibility

4. How much do you agree with the phrase "A proactive focus to compliance can create an essential competitive edge?"

- Agree strongly
- Agree slightly
- Neither agree nor disagree
- Disagree slightly
- Disagree strongly

5. How much do you agree with the phrase "Investments in technology with the goal of achieving compliance with the regulatory framework will help other parts of the business?"

- Agree strongly
- Agree slightly
- Neither agree nor disagree
- Disagree slightly
- Disagree strongly

6. Would a gap or a failure in achieving compliance with the regulatory framework have a negative impact on your company?

- Agree strongly
- Agree slightly
- Neither agree nor disagree
- Disagree slightly
- Disagree strongly

7. Would a gap or a failure in achieving compliance with the regulatory framework result in higher cost of capital?

- Agree strongly
- Agree slightly
- Neither agree or disagree
- Disagree slightly
- Disagree strongly

8. Would a gap or a failure in achieving compliance with the regulatory framework result in constraints on new product development?

- Agree strongly
- Agree slightly
- Neither agree or disagree
- Disagree slightly
- Disagree strongly

9. Would a gap or a failure in achieving compliance with the regulatory framework result in losing customers?

- Agree strongly
- Agree slightly
- Neither agree or disagree
- Disagree slightly
- Disagree strongly

10. Would a gap or a failure in achieving compliance with the regulatory framework result in higher costs in attracting customer?

- Agree strongly
- Agree slightly
- Neither agree or disagree
- Disagree slightly
- Disagree strongly

11. Would a gap or a failure in achieving compliance with the regulatory framework result in reduced returns?

- Agree strongly
- Agree slightly
- Neither agree nor disagree
- Disagree slightly
- Disagree strongly

12. How effective do you think your company is at "Overall management of regulatory risk"?

- Very Effective
- Effective
- Not sure
- Ineffective
- Very Ineffective

13. How efficient is your company when dealing with compliance breaches?

- Very Efficient
- Efficient
- Not sure
- Inefficient
- Very Inefficient

14. How effective is your company at building good relationships with its regulators?

- Very Effective
- Effective
- Not sure
- Ineffective
- Very Ineffective

15. How efficient is your company at achieving co-operation between the three functions of internal control system (compliance, risk and internal audit)"?

- Very Effective
- Effective
- Not sure
- Ineffective
- Very Ineffective

16. During the past year, has been a difference in the amount of time and resources spent in order to achieve compliance? (e.g. increased time devoted by Board Members to regulatory issues, enlarged cost of compliance, enhancement of compliance function's personnel, multiplied investments on new technologies required by the regulatory framework, reinforcement of the staff training e.t.c.)

- Significant Increase
- Increase
- Neither increase nor Decrease
- No increase

17. What is the impact of the stricter regulation adopted after the financial crisis on profitability of your company?

- Positive
- Neutral
- Negative

18. What is the impact of the stricter regulation adopted after the financial crisis on attracting new investors concerning your company?

- Positive
- Neutral
- Negative

19. What is the impact of the stricter regulation adopted after the financial crisis on your client base?

- Positive
- Neutral
- Negative

20. What is the impact of the stricter regulation adopted after the financial crisis on the ratings of your company by rating agencies?

- Positive
- Neutral
- Negative

SUBMIT

100%: You made it.

Never submit passwords through Google Forms.

FREQUENCY TABLES

The outputs of the statistic program called SPSS that we used to edit our data received from the answers of those who answered the questionnaire, are presented . First the Frequency Tables are presented (SPSS/command Analyze → Descriptive Statistics → Frequencies).

In which country is your company seated?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Greece"	23	76,7	79,3	79,3
	"FYROM"	1	3,3	3,4	82,8
	"ALBANIA"	1	3,3	3,4	86,2
	"ROMANIA"	1	3,3	3,4	89,7
	"CYPRUS"	1	3,3	3,4	93,1
	"SERBIA"	1	3,3	3,4	96,6
	"SOUTH AFRICA"	1	3,3	3,4	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

What is your primary industry of activity?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Commercial Banking"	22	73,3	75,9	75,9
	"Retail Banking"	7	23,3	24,1	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

In which of the subsequent ways do you believe that compliance with the new intensive regulatory framework (after the crisis) will be a negative development for your company or the financial sector in general?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Increase cost base"	14	46,7	48,3	48,3
	"Hamper ability to introduce new products and services"	7	23,3	24,1	72,4
	"Adversely affect financial performance"	2	6,7	6,9	79,3
	"Harm competitiveness"	4	13,3	13,8	93,1
	"Make it more difficult to tempt and engage customers"	1	3,3	3,4	96,6
	"Weaken Balance sheet"	1	3,3	3,4	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

In which of the subsequent ways, if any, has your company sought to establish a competitive edge from its compliance with the new intensive regulatory framework?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Using its reputation to improve its overall public image and gain customer trust	19	63,3	65,5	65,5
	Using its reputation to build better relations with supervisor	3	10,0	10,3	75,9
	Using its reputation to attract new investors	2	6,7	6,9	82,8
	Better financial performance through improved risk management	4	13,3	13,8	96,6
	Bringing new products and services to the market before of its competitors	1	3,3	3,4	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

How much do you agree with the phrase "Investments in technology with the goal of achieving compliance with the regulatory framework will help other parts of the business"

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree strongly	22	73,3	75,9	75,9
	Agree slightly	6	20,0	20,7	96,6
	Disagree slightly	1	3,3	3,4	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

Would a gap or a failure in achieving compliance with the regulatory framework have a negative impact on your company?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree strongly	24	80,0	82,8	82,8
	Agree slightly	5	16,7	17,2	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

How much do you agree with the phrase "A proactive focus to compliance can create an essential competitive edge?"

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree strongly	16	53,3	55,2	55,2
	Agree slightly	9	30,0	31,0	86,2
	Neither agree nor disagree	1	3,3	3,4	89,7
	Disagree slightly	2	6,7	6,9	96,6
	Disagree strongly	1	3,3	3,4	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

Would a gap or a failure in achieving compliance with the regulatory framework result in higher cost of capital?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree strongly	14	46,7	48,3	48,3
	Agree slightly	11	36,7	37,9	86,2
	Neither agree nor disagree	2	6,7	6,9	93,1
	Disagree slightly	2	6,7	6,9	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

Would a gap or a failure in achieving compliance with the regulatory framework result in constraints on new product development?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree strongly	12	40,0	41,4	41,4
	Agree slightly	12	40,0	41,4	82,8
	Neither agree nor disagree	2	6,7	6,9	89,7
	Disagree slightly	3	10,0	10,3	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

Would a gap or a failure in achieving compliance with the regulatory framework result in losing customers?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree strongly	11	36,7	37,9	37,9
	Agree slightly	14	46,7	48,3	86,2
	Neither agree nor disagree	3	10,0	10,3	96,6
	Disagree strongly	1	3,3	3,4	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

Would a gap or a failure in achieving compliance with the regulatory framework result in reduced returns?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree strongly	5	16,7	17,2	17,2
	Agree slightly	11	36,7	37,9	55,2
	Neither agree nor disagree	12	40,0	41,4	96,6
	Disagree slightly	1	3,3	3,4	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

How effective do you think your company is at “Overall management of regulatory risk”?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Effective	11	36,7	37,9	37,9
	Effective	18	60,0	62,1	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

How efficient is your company when dealing with compliance breaches?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Efficient	11	36,7	37,9	37,9
	Efficient	18	60,0	62,1	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

How effective is your company at building good relationships with its regulators?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Effective	21	70,0	72,4	72,4
	Effective	8	26,7	27,6	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

How efficient is your company at achieving co-operation between the three functions of internal control system (compliance, risk and internal audit)"?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Efficient	20	66,7	69,0	69,0
	Efficient	7	23,3	24,1	93,1
	Not sure	2	6,7	6,9	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

During the past year, has been a difference in the amount of time and resources spent in order to achieve compliance? (eg. increased time devoted by Board Members to regulatory issues, enlarged cost of compliance, enhancement of compliance function's personnel, multiplied investments on new technologies required by the regulatory framework, reinforcement of the staff training etc)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Significant increase	18	60,0	62,1	62,1
	Increase	8	26,7	27,6	89,7
	No increase	3	10,0	10,3	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

What is the impact of the stricter regulation adopted after the financial crisis on profitability of your company ?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Positive	5	16,7	17,2	17,2
	Neutral	13	43,3	44,8	62,1
	Negative	11	36,7	37,9	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

What is the impact of the stricter regulation adopted after the financial crisis on attracting new investors concerning your company ?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Positive	8	26,7	27,6	27,6
	Neutral	18	60,0	62,1	89,7
	Negative	3	10,0	10,3	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

What is the impact of of the stricter regulation adopted after the financial crisis on your client base?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Positive	4	13,3	13,8	13,8
	Neutral	19	63,3	65,5	79,3
	Negative	6	20,0	20,7	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

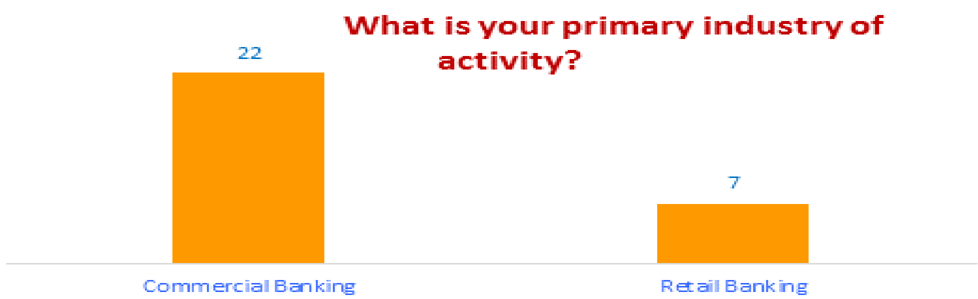
What is the impact of the stricter regulation adopted after the financial crisis on the ratings of your company by rating agencies?

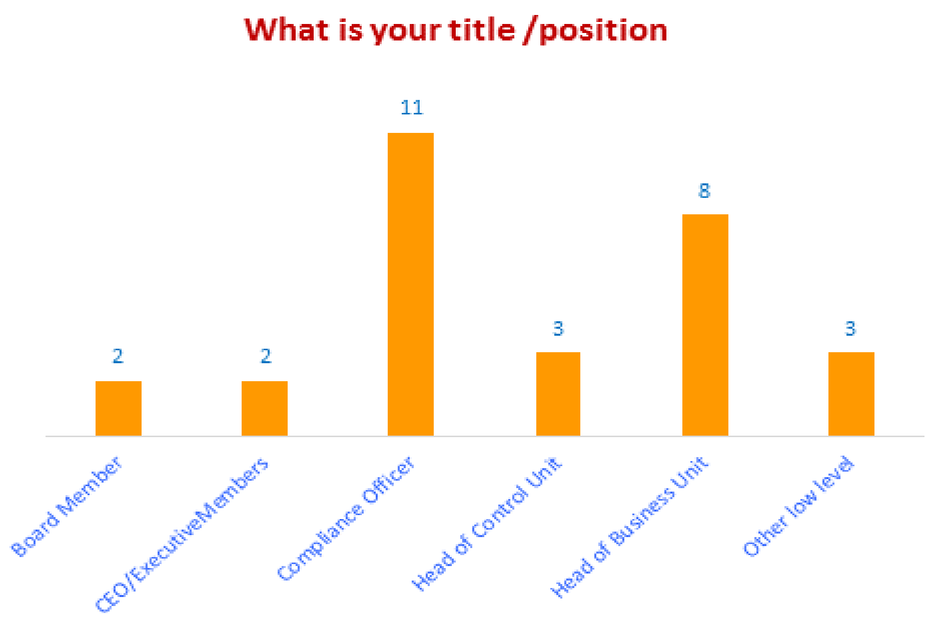
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Positive	9	30,0	31,0	31,0
	Neutral	15	50,0	51,7	82,8
	Negative	5	16,7	17,2	100,0
	Total	29	96,7	100,0	
Missing	System	1	3,3		
Total		30	100,0		

Frequency tables show how many times an answer of a question comes up in our data and the percentage that every answer represents in our total sample.

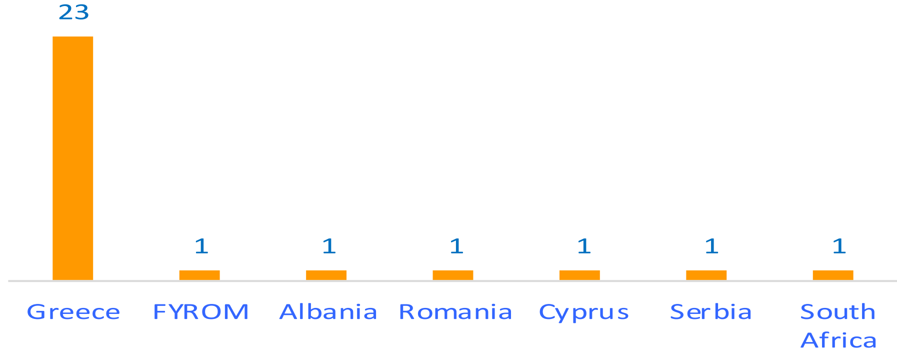
After that, graphics of every question are presented. (SPSS/ command Graphs → Graphboard Template chooser)

GRAPHICS

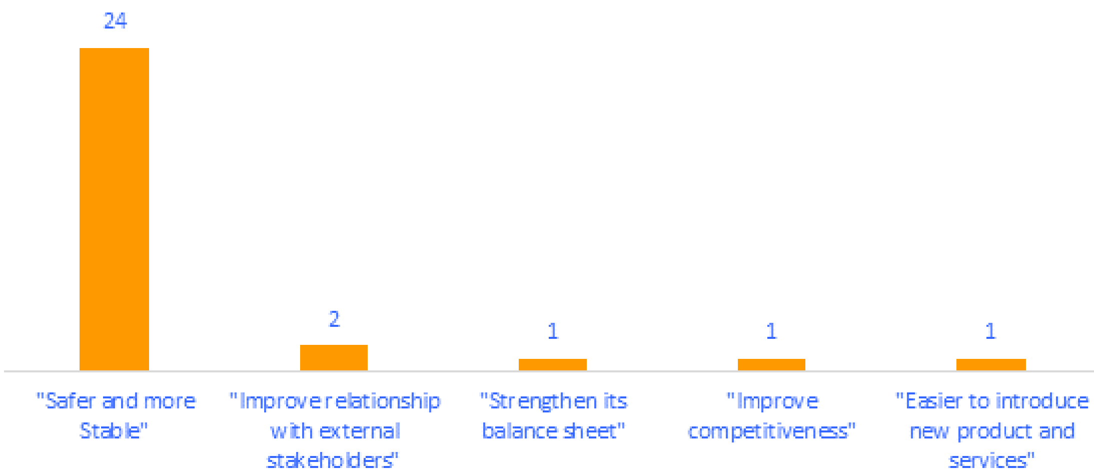


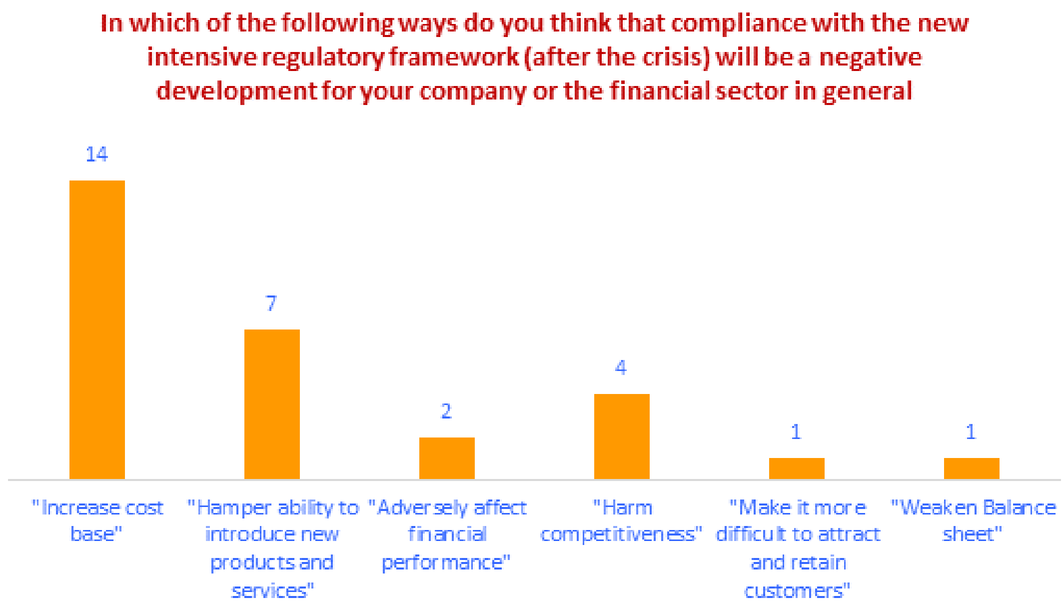


In which country is your company seated

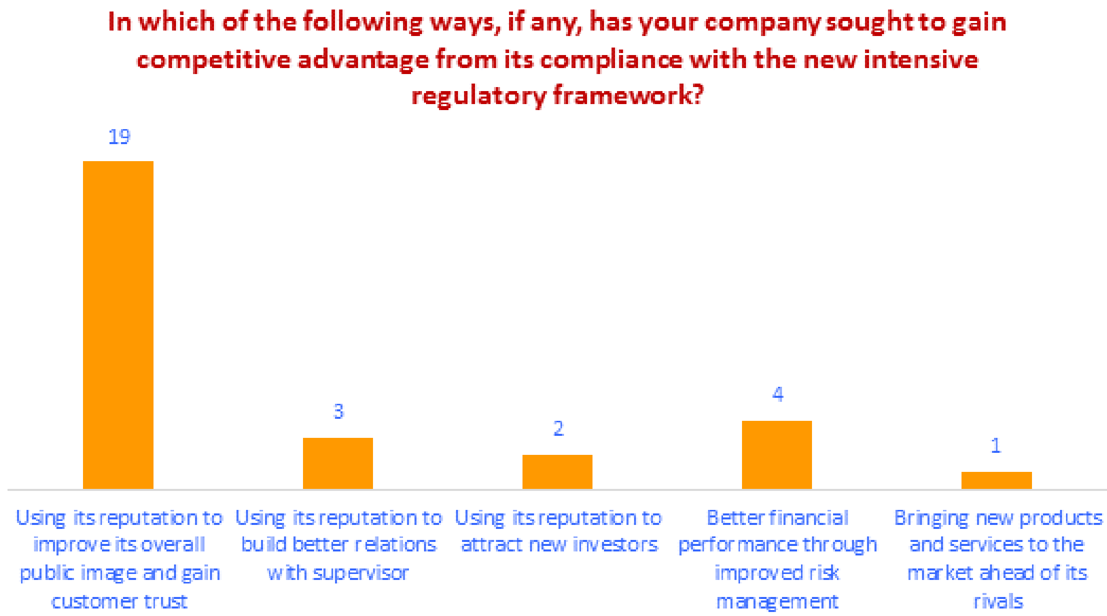


In which way compliance with the new intensive regulatory framework (after the crisis) will be a positive development for your company or the financial sector in general

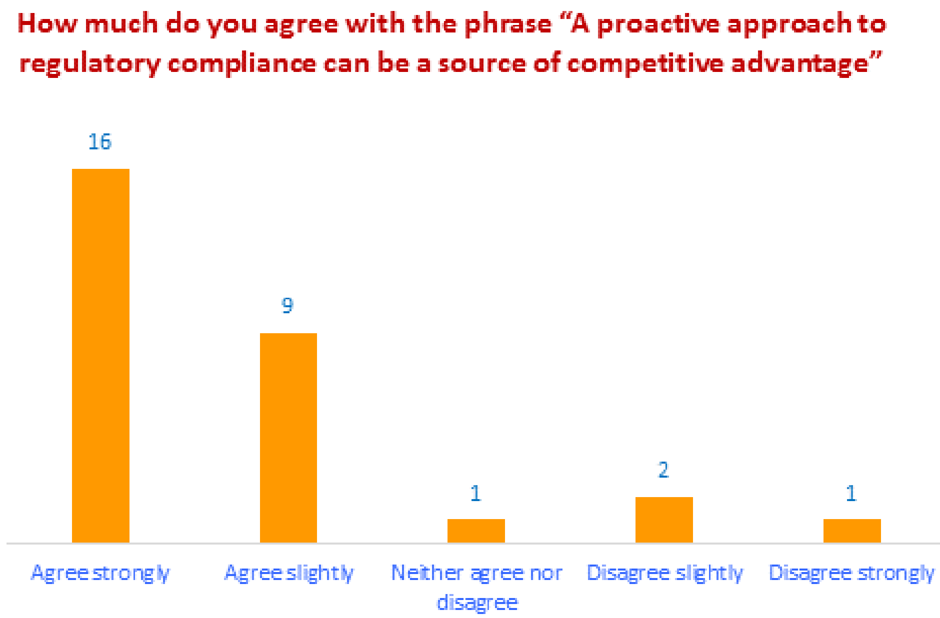


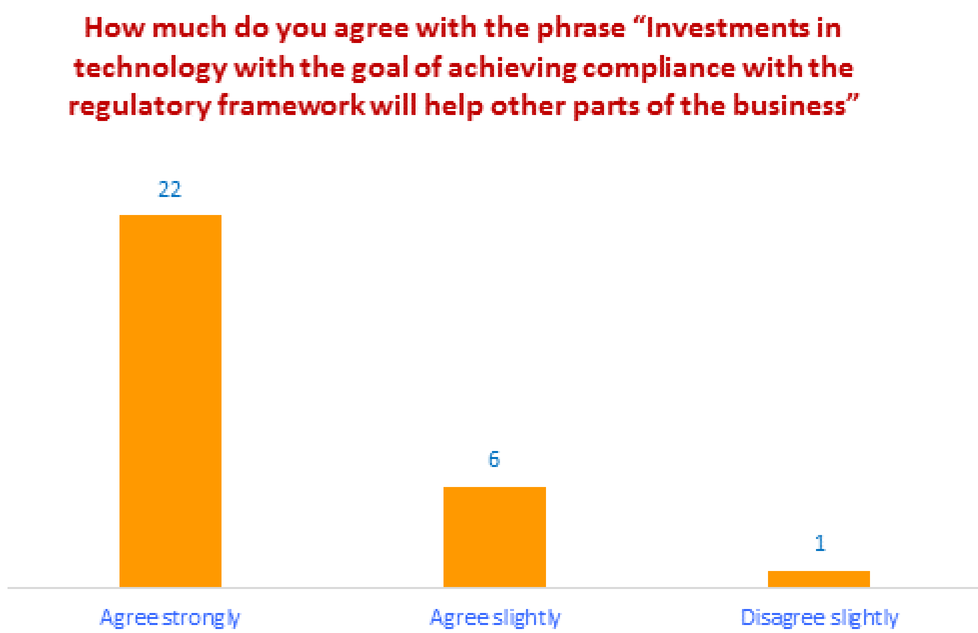


In which of the following ways do you think that compliance with the new intensive regulatory framework (after the crisis) will be a negative development for your company or the financial sector in general
14
7
2
4
1
1
"Increase cost base"
"Hamper ability to introduce new products and services"
"Adversely affect financial performance"
"Harm competitiveness"
"Make it more difficult to attract and retain customers"
"Weaken Balance sheet"

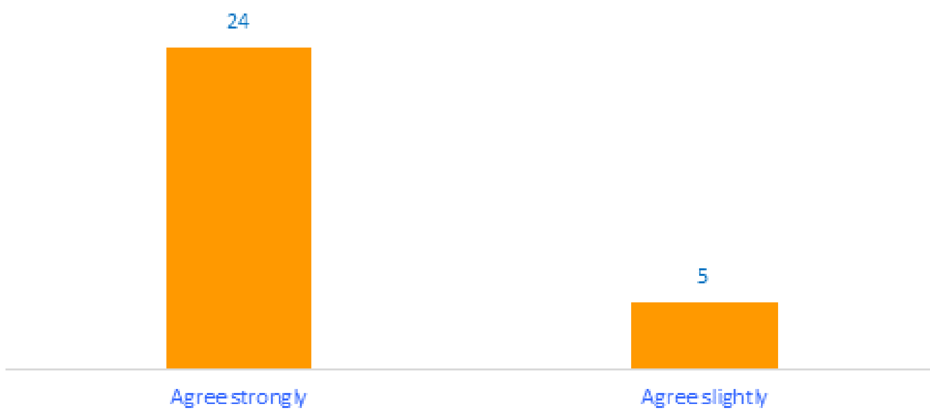


In which of the following ways, if any, has your company sought to gain competitive advantage from its compliance with the new intensive regulatory framework?
19
3
2
4
1
Using its reputation to improve its overall public image and gain customer trust
Using its reputation to build better relations with supervisor
Using its reputation to attract new investors
Better financial performance through improved risk management
Bringing new products and services to the market ahead of its rivals

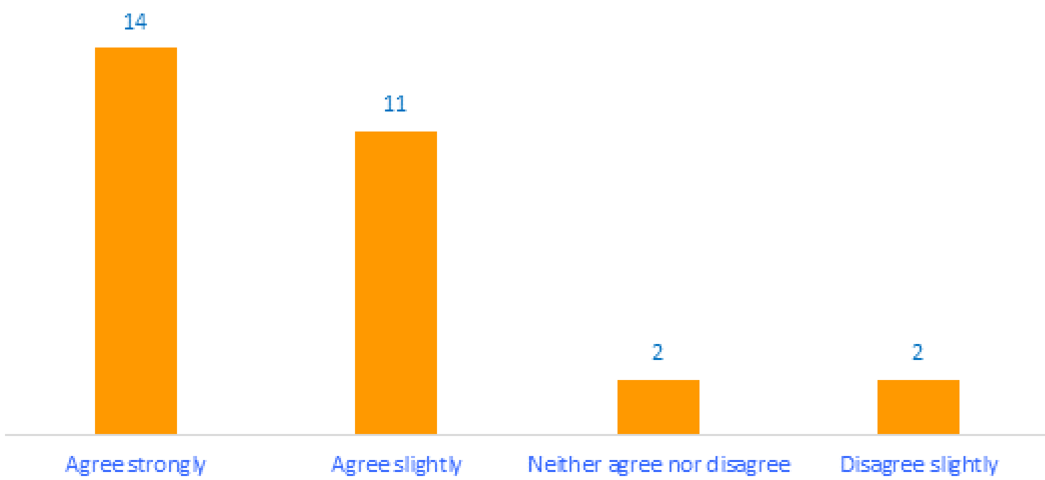

How much do you agree with the phrase "A proactive approach to regulatory compliance can be a source of competitive advantage"
16
9
1
2
1
Agree strongly
Agree slightly
Neither agree nor disagree
Disagree slightly
Disagree strongly


How much do you agree with the phrase "Investments in technology with the goal of achieving compliance with the regulatory framework will help other parts of the business"
22
6
1
Agree strongly
Agree slightly
Disagree slightly

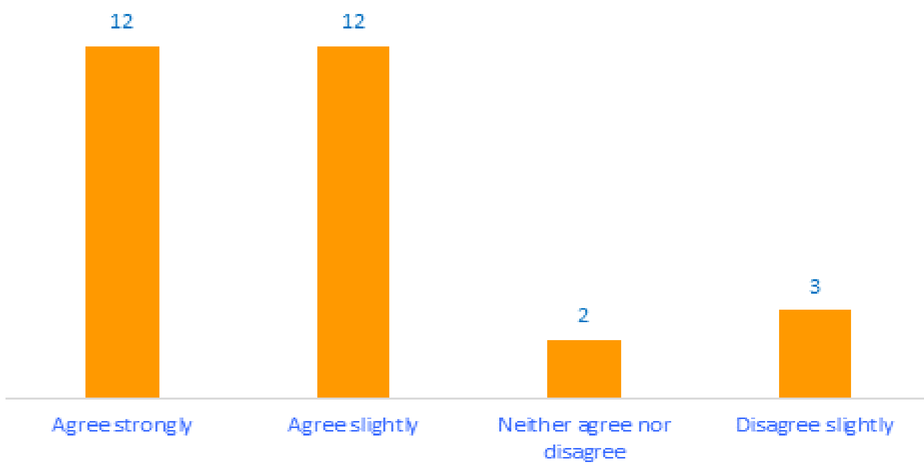
Would a gap or a failure in achieving compliance with the regulatory framework have a negative impact on your company?



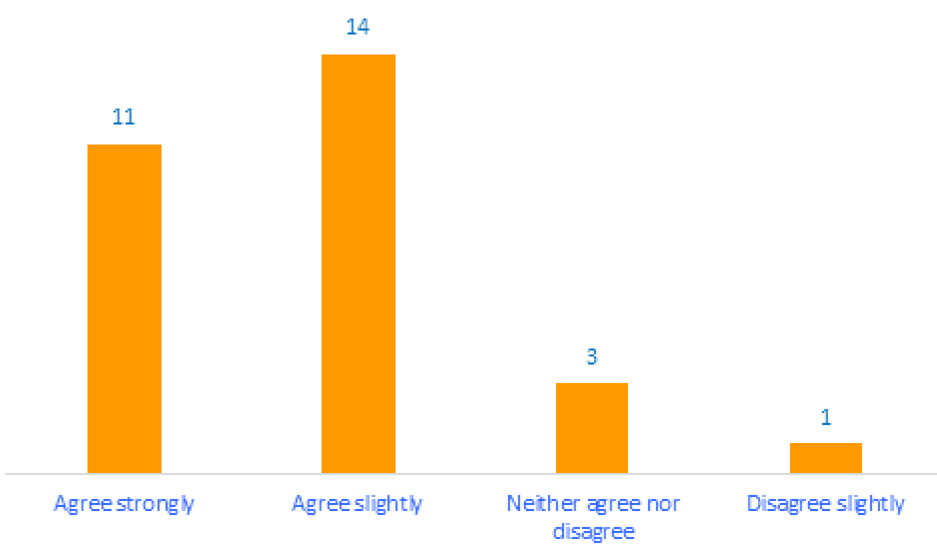
Would a gap or a failure in achieving compliance with the regulatory framework result in higher cost of capital

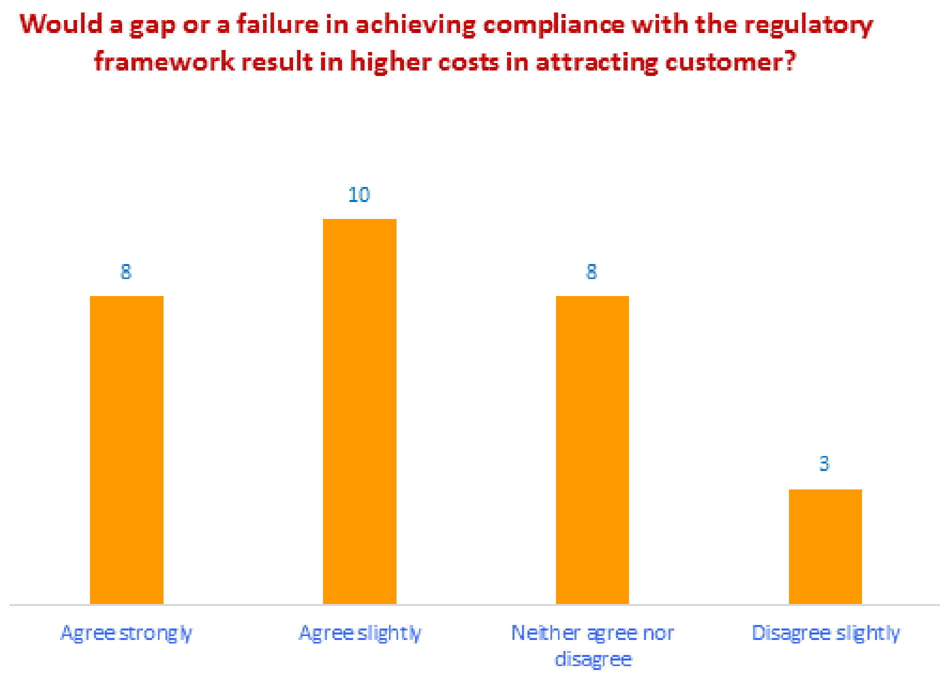


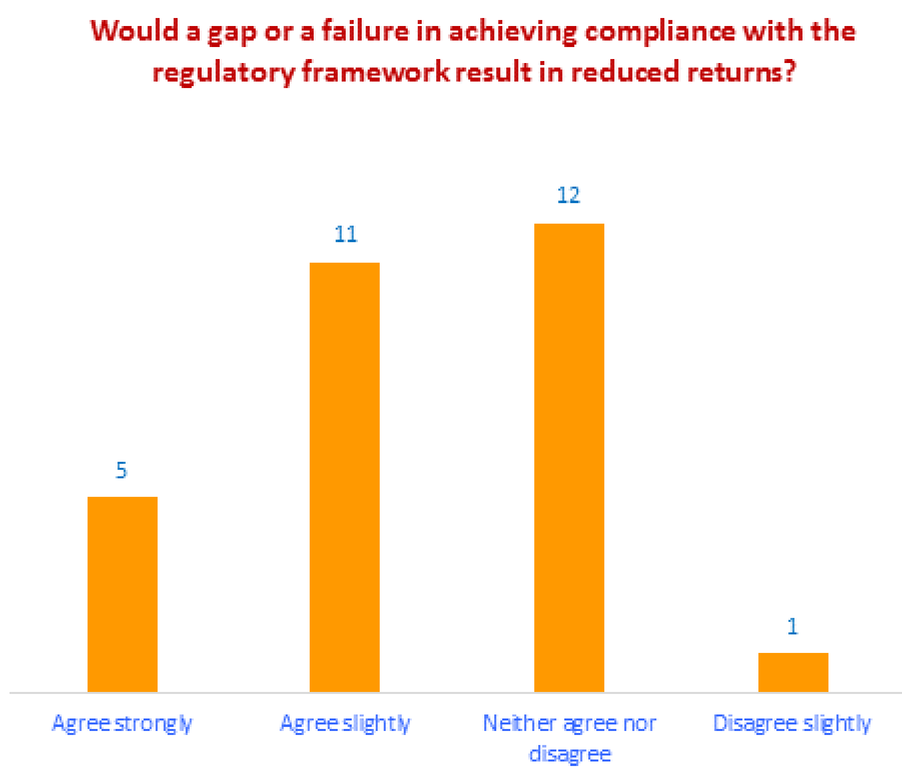
Would a gap or a failure in achieving compliance with the regulatory framework result in constraints on new product development?



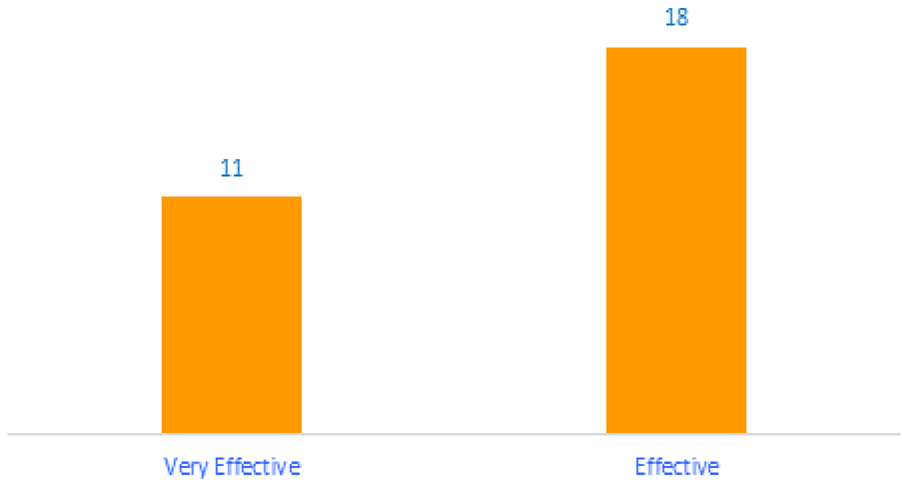
Would a gap or a failure in achieving compliance with the regulatory framework result in losing customers?



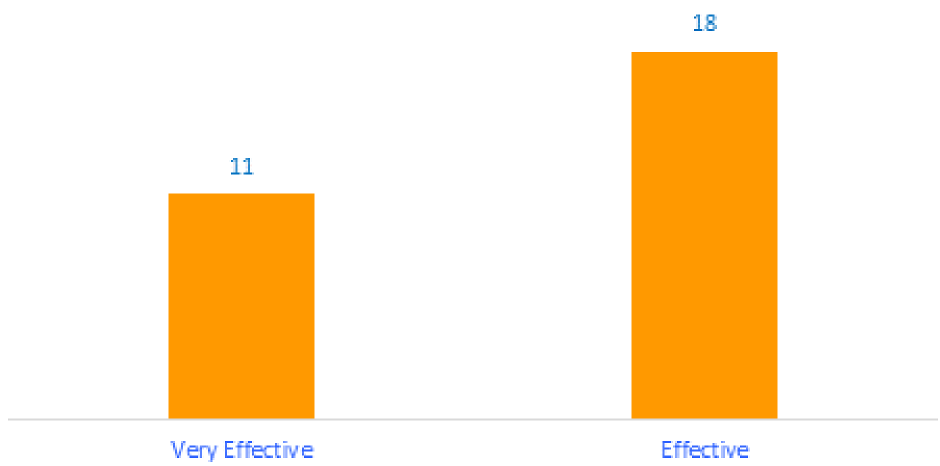

Would a gap or a failure in achieving compliance with the regulatory framework result in higher costs in attracting customer?
10
8
8
3
Agree strongly
Agree slightly
Neither agree nor disagree
Disagree slightly


Would a gap or a failure in achieving compliance with the regulatory framework result in reduced returns?
12
11
5
1
Agree strongly
Agree slightly
Neither agree nor disagree
Disagree slightly

How effective do you think your company is at "Overall management of regulatory risk"?

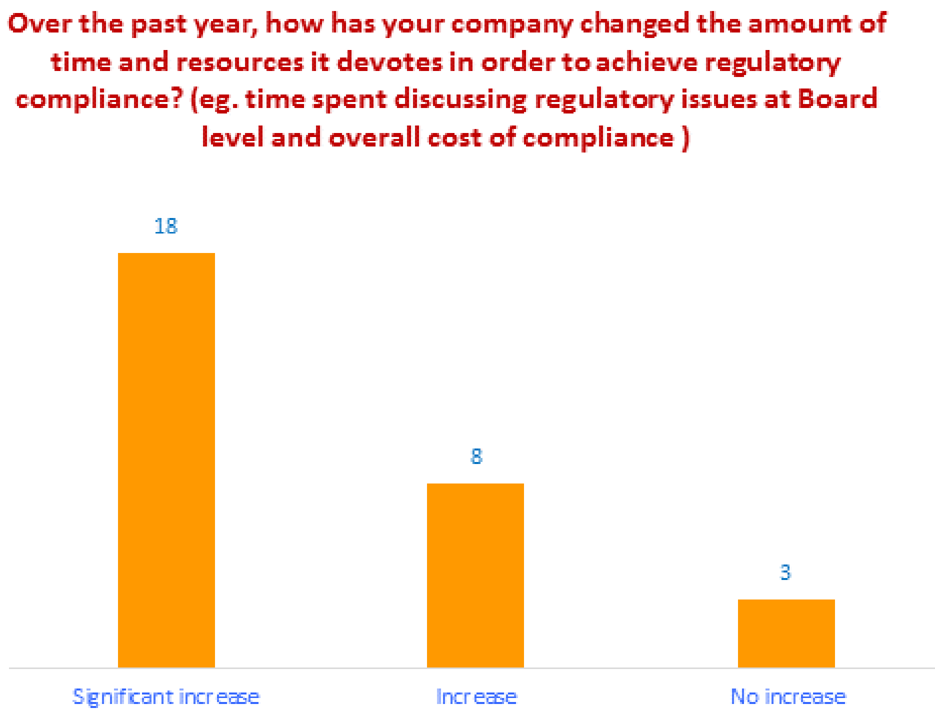


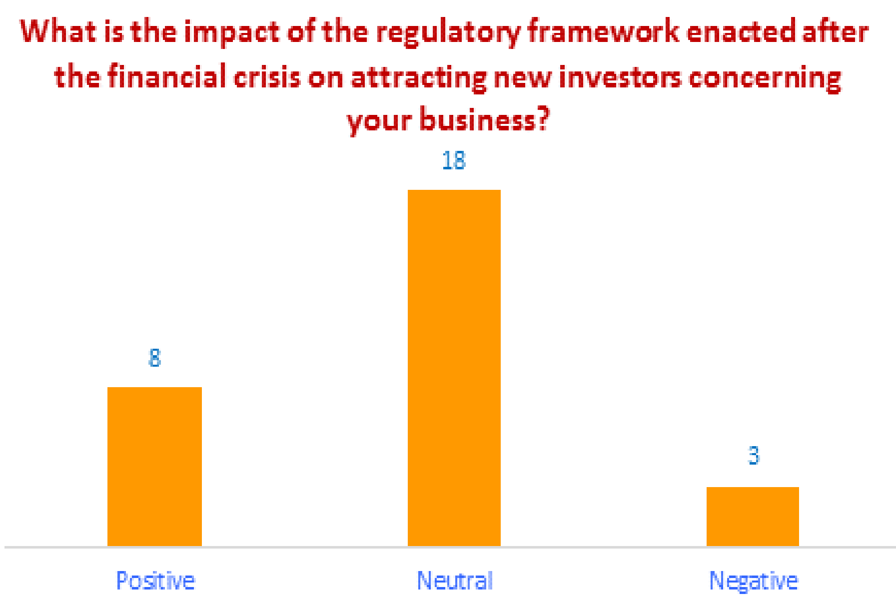
How efficient is your company when dealing with compliance breaches?

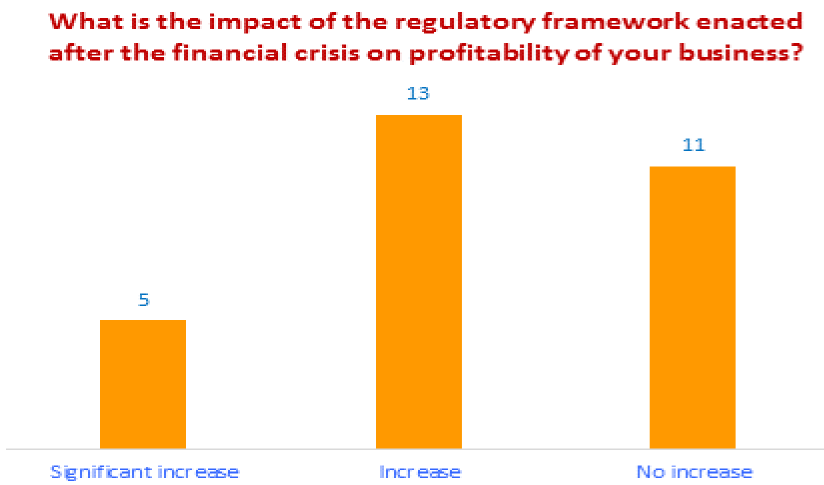


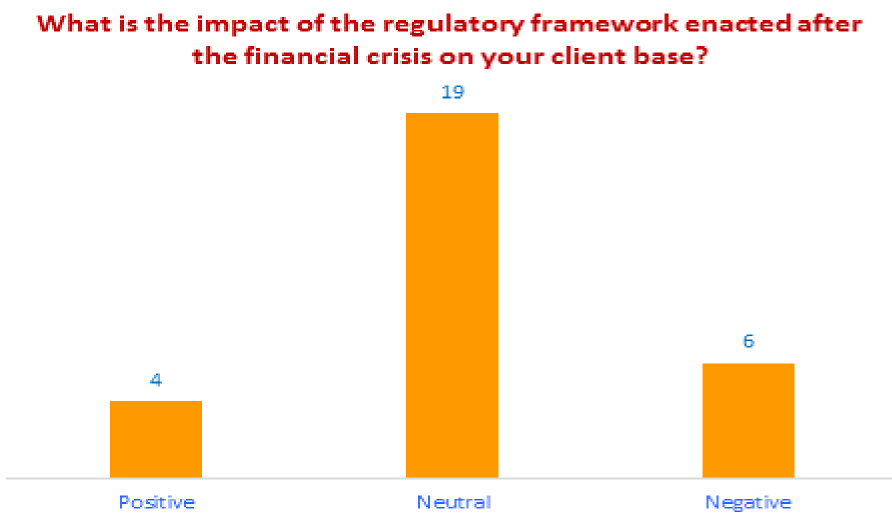

How effective is your company at building good relationships with its regulators?
21
8
Very Effective
Effective

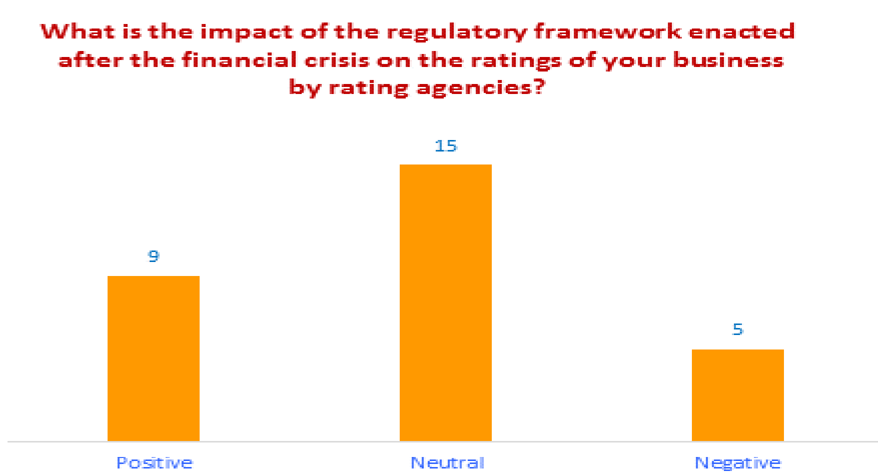

How efficient is your company at achieving co-operation between the compliance function and other internal control functions (e.g. risk management or internal audit)"?
20
7
2
Very Effective
Effective
Not sure


Over the past year, how has your company changed the amount of time and resources it devotes in order to achieve regulatory compliance? (eg. time spent discussing regulatory issues at Board level and overall cost of compliance)
18
8
3
Significant increase
Increase
No increase


What is the impact of the regulatory framework enacted after the financial crisis on attracting new investors concerning your business?
18
8
3
Positive
Neutral
Negative


What is the impact of the regulatory framework enacted after the financial crisis on profitability of your business?
13
11
5
Significant increase
Increase
No increase


What is the impact of the regulatory framework enacted after the financial crisis on your client base?
19
6
4
Positive
Neutral
Negative


What is the impact of the regulatory framework enacted after the financial crisis on the ratings of your business by rating agencies?
15
9
5
Positive
Neutral
Negative

KMO and BARTLETT's Test

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,215
Bartlett's Test of Sphericity	Approx. Chi-Square	396,922
	df	253
	Sig.	,000

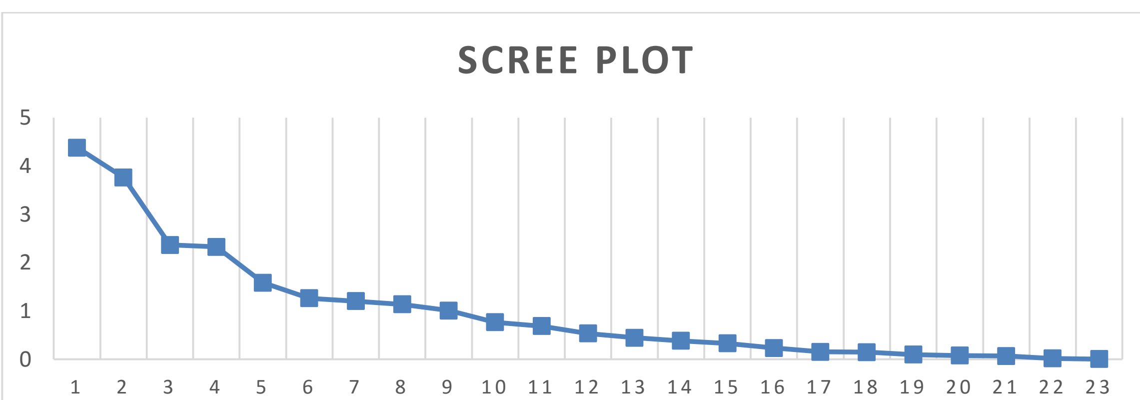
Communalities

	Initial	Extraction
In which country is your company seated?	1,000	,829
What is your primary industry of activity?	1,000	,800
What is your title/position?	1,000	,735
In which way compliance with the new intensive regulatory framework (after the crisis) will be a positive development for your company or the financial sector in general?	1,000	,755
In which of the subsequent ways do you believe that compliance with the new intensive regulatory framework (after the crisis) will be a negative development for your company or the financial sector in general?	1,000	,821
In which of the subsequent ways, if any, has your company sought to establish a competitive edge from its compliance with the new intensive regulatory framework?	1,000	,944
How much do you agree with the phrase "A proactive focus to compliance can create an essential competitive edge?"	1,000	,860
How much do you agree with the phrase "Investments in technology with the goal of achieving compliance with the regulatory framework will help other parts of the business"	1,000	,764
Would a gap or a failure in achieving compliance with the regulatory framework have a negative impact on your company?	1,000	,810
Would a gap or a failure in achieving compliance with the regulatory framework result in higher cost of capital?	1,000	,836
Would a gap or a failure in achieving compliance with the regulatory framework result in constraints on new product development?	1,000	,847
Would a gap or a failure in achieving compliance with the regulatory framework result in losing customers?	1,000	,914
Would a gap or a failure in achieving compliance with the regulatory framework result in Higher costs in attracting customer?	1,000	,736
Would a gap or a failure in achieving compliance with the regulatory framework result in reduced returns?	1,000	,873
How effective do you think your company is at "Overall management of regulatory risk"?	1,000	,912

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4,381	19,048	19,048	4,381	19,048	19,048
2	3,766	16,372	35,420	3,766	16,372	35,420
3	2,368	10,295	45,715	2,368	10,295	45,715
4	2,328	10,121	55,836	2,328	10,121	55,836
5	1,586	6,894	62,729	1,586	6,894	62,729
6	1,265	5,499	68,228	1,265	5,499	68,228
7	1,204	5,233	73,461	1,204	5,233	73,461
8	1,137	4,944	78,405	1,137	4,944	78,405
9	1,008	4,383	82,788	1,008	4,383	82,788
10	,768	3,340	86,128			
11	,689	2,995	89,123			
12	,535	2,325	91,448			
13	,445	1,936	93,383			
14	,382	1,659	95,042			
15	,330	1,437	96,479			
16	,233	1,011	97,490			
17	,155	,672	98,162			
18	,149	,648	98,811			
19	,099	,429	99,239			
20	,080	,349	99,589			
21	,069	,300	99,888			
22	,019	,084	99,972			
23	,006	,028	100,000			

Extraction Method: Principal Component Analysis.



Component number

The scree plot shows the eigenvalue against the component (factor) number. One can see these values in the first two columns of the above mentioned table. From the third factor on, one can see that the line is almost flat. That means that each subsequent factor is accounting for smaller and smaller amounts of the total variance.

Reliability Check

Interpreting the Output:

Reliability Statistics

Cronbach's Alpha	N of Items
,484	23

Case Processing Summary

		N	%
Cases	Valid	29	96,7
	Excluded[a]	1	3,3
	Total	30	100,0

a. Listwise deletion based on all variables in the procedure.

29 cases (respondents) were used in the calculation of Cronbach's alpha.The obtained alpha is 0.484 which indicates that the scale has low internal consistency (reliability). (It should be noted that a reliability coefficient of .70 or higher is considered "acceptable" in most social science research situations.)

The Item-Total Statistics below shows the cronbach's alpha for every question of the questionnaire.

Item: Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
In which country is your company seated?	43,00	37,357	-,131	,560
What is your primary industry of activity?	40,48	36,259	,186	,472
What is your title/position?	40,97	35,749	-,018	,516
In which way compliance with the new intensive regulatory framework (after the crisis) will be a positive development for your company or the financial sector in general?	43,21	37,599	-,129	,546
In which of the subsequent ways do you believe that compliance with the new intensive regulatory framework (after the crisis) will be a negative development for your company or the financial sector in general?	42,62	34,244	,069	,494
In which of the subsequent ways, if any, has your company sought to establish a competitive edge from its compliance with the new intensive regulation?	42,93	34,709	,075	,489
How much do you agree with the phrase "A proactive focus to compliance can create an essential competitive edge"	43,00	33,000	,268	,445
How much do you agree with the phrase "Investments in technology with the goal of achieving compliance with the regulatory framework will help other parts of the business"	43,41	34,108	,373	,443

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Would a gap or a failure in achieving compliance with the regulatory framework have a negative impact on your company?	43,55	35,328	,426	,456
Would a gap or a failure in achieving compliance with the regulatory framework result in higher cost of capital?	43,00	33,929	,264	,451
Would a gap or a failure in achieving compliance with the regulatory framework result in constraints on new product development?	42,86	37,552	-,089	,512
Would a gap or a failure in achieving compliance with the regulatory framework result in losing customers?	42,90	31,953	,465	,414
Would a gap or a failure in achieving compliance with the regulatory framework result in Higher costs in attracting customer?	42,52	32,473	,358	,430
Would a gap or a failure in achieving compliance with the regulatory framework result in reduced returns?	42,41	35,608	,121	,475
How effective do you think your company is at “Overall management of regulatory risk”?	43,10	35,953	,207	,469
How efficient is your company when dealing with compliance breaches?	43,10	33,525	,639	,427
How effective is your company at building good relationships with its regulators?	43,45	36,113	,201	,470

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
How efficient is your company at achieving co-operation between the three functions of internal control system (compliance, risk and internal audit)"?	43,34	35,091	,264	,459
During the past year, has been a difference in the amount of time and resources spent in order to achieve compliance? (e.g. increased time devoted by Board Members to regulatory issues, enlarged cost of compliance, enhancement of compliance function's personnel, e.t..c.)	43,14	35,266	,112	,477
What is the impact of the stricter regulation adopted after the financial crisis on profitability of your company?	42,52	35,330	,181	,467
What is the impact of the stricter regulation adopted after the financial crisis on attracting new investors concerning your company?	42,90	35,025	,286	,457
What is the impact of the stricter regulation adopted after the financial crisis on your client base?	42,66	35,591	,209	,466
What is the impact of the stricter regulation adopted after the financial crisis on the ratings of your business by rating agencies?	42,86	34,195	,339	,446