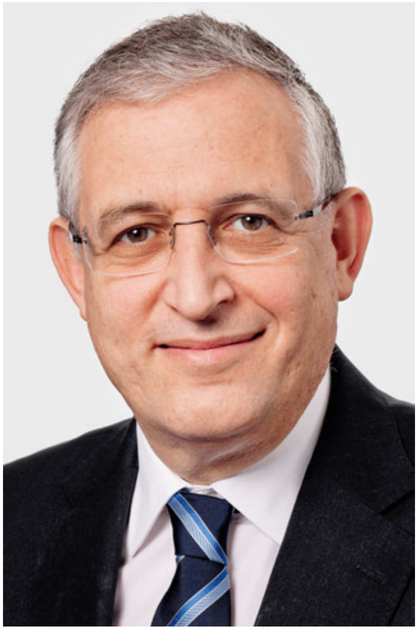
The increasingly complex regulatory landscape

Currently, the financial industry worldwide faces many challenges. This is not only due to the instable business environment, but also to the growing national and global regulatory requirements. This article highlights the evolution of financial regulations and offers an outlook on what the future may bring with regard to regulatory compliance.



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The rise of regulations

Regulatory pressure gained importance in the 1990s to tackle the threat of money laundering, as some public cases in this arena raised the need for more regulation.

The financial crisis of 2007/2008 shifted regulatory focus onto investor protection and financial stability ("too big to fail"). This led to many initiatives, including the Markets in Financial Instruments Directive (Mifid) and Dodd-Frank. In the area of investor protection, Mifid ensures that information concerning investment products (instrument, risks, costs etc.) is transparent for investors, while Dodd-Frank, a U.S.-focused reform, makes certain that banks have enough capital security to withstand economic collapse. A further framework, with similar objectives to Dodd-Frank, but with a more international scope, is the Basel Regulatory Framework. Basel III will go into effect on 1 January 2019.

For the past five years, the tax transparency theme became an important regulatory requirement. This brought about the advent of the U.S. Foreign Account Tax Compliance Act (Fatca) and the Organization for Economic Cooperation and Development's (OECD) Common Reporting Standards (CRS).

When looking into these three topics – combatting money-laundering, investor protection and tax transparency – one can see that the financial industry's regulatory requirements are constantly increasing.

How regulatory acts, standards and directives affect financial institutions

Compliance with regulatory requirements requires resources and tools. Firms must ensure that they have in place the required processes, together with adequate staff in the area of legal, tax and compliance. Companies must also guarantee that their IT can support the requirements in the area of data gathering, monitoring and reporting capabilities. Furthermore, their systems have to be designed in such a manner that they are flexible enough to easily implement any future regulatory change or amendment. The institutions must also put into place adequate policies and procedures that cover the day-to-day business and ensure the full awareness of staff through adequate training.

Ensuring knowledgeable staff, suitable IT solutions as well as policies and procedures can be very costly for an organization. But these steps are necessary, as failing to put into place a strong "compliance culture" can lead to regulatory issues that could result in strategic burdens. These can hurt the firm's reputation, as regulatory breaches are quickly published in the modern communication landscape. They can also make it difficult for firms to gain regulatory approvals for business expansions and create added costs due to legal cases, investigations and additional audit expenditures.

Outlook

Today, regulations from the Alternative Investment Fund Managers Directive (Aifmd), Fatca, the European Union Financial Transaction Tax (EU FTT), Dodd-Frank and Solvency II to Basel III and Mifid showcase the global increase of acts, standards and legislative directives that must be dealt with. Their scope also highlights the movement towards the globalization of regulatory standards. In line with this, a new wave of intergovernmental agreements (IGA) are being rolled out. For example, in 2014, the OECD introduced the abovementioned Common Reporting Standards (CRS) as a global measure to ensure tax transparency. It will be enforced in its first wave in January 2016, with the first reporting for 2017.

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