

A juggling act

Maddie Saghir reports

As firms continue to juggle innovation, customer loyalty and deal with the complexity of regulatory change, Broadridge's Philip Taliaferro discusses regulatory challenges for the year ahead

What will the main regulatory challenges be for the year ahead?

The underlying conundrum is how to innovate, drive customer loyalty and grow while dealing with the velocity, scale and complexity of regulatory change across jurisdictions. Firms need a robust regulatory governance model and an agile response to regulatory and market changes such as the Securities Financing Transactions Regulation (SFTR), the second Shareholder Rights Directive (SRD II), UK Assessment of Value and the Central Securities Depositories Regulation's (CSDR) Settlement Discipline Regime to name but a few. Adding to this, we know that firms are also planning for other mandatory changes such as the wider introduction of ISO 20022 as the global standard for payments messaging.

What opportunities can come about as a result of regulation?

Increasingly, we will see firms take a more strategic approach to regulatory technology. For example, while some have responded to previous waves of G10-related regulations for trade and transaction reporting – Dodd-Frank, the European Market Infrastructure Regulation (EMIR), the Markets in Financial Instruments Directive (MiFID) and more besides – with a discrete, tactical solution, a growing number of these firms are now adopting a single, strategic solution that enables a more centralised and efficient approach to reporting across all jurisdictions. By taking this approach, these firms will find themselves relatively well-placed to onboard the latest of these regulations, SFTR due in April 2020, and others as they continue to evolve.

Regulation can be seen as both a help and a hindrance it seems, but to what extent did MiFID II foster competition and create opportunities via trading and clearing?

It was an important step in helping to restore investor confidence in the European financial markets, especially after the 2008 crisis. It increased cost transparency and investor protection by extending the discipline of trade and transaction reporting and forcing asset managers to make their fee structure more explicit. However, one of the consequences, assumed unintended, is the reduced availability of research in certain, generally smaller, companies.

A recent report found that global penalties in 2019 totalled \$36 billion for non-compliance with AML, KYC and sanctions regulation, and fine value is 55 times the value of all MiFID II fines issued in 2018. Why are we seeing increases in fines and can we expect more in 2020?

After the introduction of MiFID I, there was a significant delay until we saw sizeable fines in the 2017/2018 years. As such, we expect MiFID II fines to increase as the regulation beds down.

How important is it to employ next generation technology to comply with regulations?

Regulations are introducing requirements that many legacy applications cannot support. The opportunity in asset servicing is to mutualise the



cost of these non-differentiating activities through technology innovation that works for the collective benefit. For example, in September 2020 the updated Shareholder Rights Directive (SRD II) will require intermediaries to share information more quickly, accurately and transparently, especially in the areas of meeting notification and proxy voting, while also fulfilling their obligation to disclose shareholder details to issuers upon request. In response to this, fintech solutions are already well advanced, including a blockchain-based shareholder disclosure hub. At Broadridge, we are also heavily invested in cloud-enabled technologies which are being used to address MiFID II, SFTR, CSDR and SRD II.

What will be the main industry trends for 2020 and how will this affect regulation?

Firms are looking to capitalise on new fintech innovations as part of their drive to transform to more efficient operations and technology infrastructure. They seek to streamline workflows and consolidate to improve their management and control frameworks while reducing risk and complexity, which in turn will position them well to address regulatory changes. Globally, there continues to be a drive to higher standards of corporate governance, as exemplified by SRD II, which will impact intermediaries in all regions if they hold or invest in European shares.

One other emerging development is how the UK will go about defining and implementing regulations following Brexit. Pending those decisions, the EU will be reviewing the degree to which they will be viewed as

‘equivalent’ to existing EU regulations. This will determine the balance of power between the regimes and the potential for regulatory Balkanisation.

How effective are the regulators in keeping up with the latest industry trends and evolution?

We have experienced relatively strong engagement from SROs, prudential regulators and central banks over the last 18 months. In a number of cases, they are looking for viewpoints from a provider as to how to achieve a regulatory objective but do so as efficiently as possible. They are also seeking insights on prior experience implementing similar regulations in other jurisdictions.



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