

# GLOBAL REGULATORY FRAGMENTATION: SHOULD THE INDUSTRY TALK ABOUT STREAMLINING COMPLIANCE ACTIVITIES?

**CAPCO**  
THE FUTURE. NOW.

In response to the economic and financial crisis in 2007/2008 and its implications to the global banking system, a barrage of regulations and legislations were levied onto industry participants by regulators across the globe. The industry spent the better part of the past decade implementing multiple regulatory change programmes, many in parallel but most within unrealistically tight timelines.

This gave rise to a sentiment within market participants that regulations have been levied upon them by global and regional regulators, without a sense of synchronization – and often, multiple stones have been used to kill the same bird. But who should take matters in to their hands, who will make the first move to end global regulatory fragmentation?

## How the Debate Unfolds?

One could not do justice to this debate if not assessed from two different lenses – one from an industry perspective and the other from the regulators' point of view.

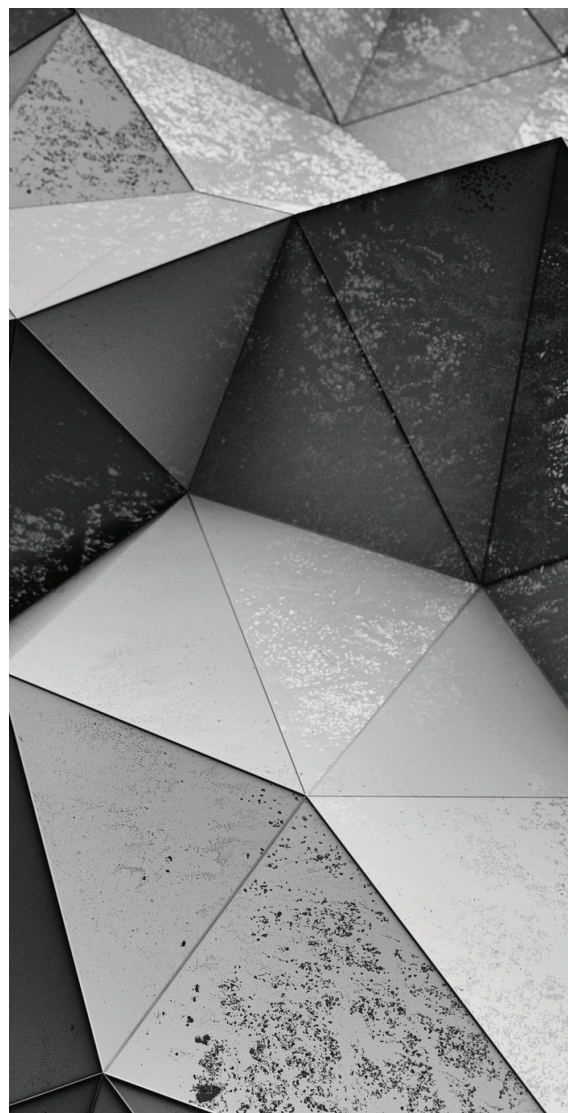
## The Industry Perspective – Regulatory Compliance is Getting Expensive

There is unanimous agreement across the industry, that global regulatory divergence is making banking more expensive due to the need to demonstrate regulatory compliance with multiple requirements, many promoting similar objectives. The industry would welcome any approach to promote alignment, external or internal.

There is a definite appetite among industry players to demand that regulators start collaborating with each other more frequently and also increase their responsiveness to industry bodies like AFME, ICMA and proactively take on feedback as part of the various regulatory consultations.

Over the course of the decade, we've seen an emergence of multiple global and local regulations that have had very closely aligned objectives but needed different reporting or control environments, due to slight nuances in compliance requirements. Examples include transaction reporting regulatory requirements under MIFIR and EMIR, European prop trading/ Ring Fencing Regulations like the German Bank Separation Act and similarities with the Dodd Frank Volcker rule etc.

Global financial institutions operating across different legal entities have in some instances been coerced to adopt processes that treat intra-company transactions as external due to pressures to meet cross border business rules around margining and risk management. The above 'divergent' regulatory obligations force banks to fragment their business models in the attempt to remove cross border regulatory obstacles as much as possible, making it more expensive to capitalize on multiple entities and streamline the management of regulatory requirements.



## The Regulators Challenge?

One must also look at the topic from a regulators' point of view to drill deeper into the 'why' around the existence of a fragmented regulatory model. There is limited political will to align since every country has a different legal structure, regulatory approaches (prescriptive vs guideline based) and varied enforcement abilities. There are definite cases where national interests take precedence over market efficiency due to local political pressures. Regulators also must find a balance between regulating fairly to achieve the objectives of regulation and managing pressures from industry lobbyist bodies that often stand in opposition, sometimes more fiercely in developing nations than developed economies.

Having said that, although constraints faced by local regulatory bodies cannot be discounted, there is definite opportunity for improvement.

## More Harmonization Across Global Regulatory Bodies

Global and national authorities could use forums like the G20 to more proactively collaborate and identify opportunities for alignment between controls of existing and new regulations that have shared objectives. Possible approaches could include providing exemptions based on pre-existing compliance with one regulation over the other or authorizations and exemptions received for one regulation should be enough for another - for example the W-8BEN form for FATCA should suffice as a US residency exception for Volcker derivatives trading.

If global regulators' identify more opportunities for alignment, a business case can be built to persuade local regulators and governments to adopt a more cooperative environment as well.

## Industry Participants Playing an Equal Part

Whilst demanding more action from global and local authorities to improve regulatory alignment and reduce the impact of fragmentation, can the industry play a part to optimize internal regulatory control environments?

## We at Capco think yes!

The industry should adopt an approach to move away from the existing model of tactical compliance, that further enhances fragmentation, and usher in an era of more unified regulatory controls and processes.

Industry participants should design an optimal regulatory operating model and work towards establishing a Unified Regulatory Control Office which leverages the synergies within existing regulatory infrastructures and controls which would result in a large step towards improving regulatory efficiency and reducing the total cost of compliance.

## The Impact of Doing Nothing?

For years, industry participants have, treated regulatory compliance as 'non-strategic' and implemented regulatory projects tactically, using the 'path of least resistance'. However, these 'quick win' implementations have come at a cost. Every new regulatory implementation has given rise to a unique 'cottage industry' within the organization, which has continually increased the cost of compliance each year since 2009.

Organizations today spend up to 20% of their RTB costs on regulatory compliance activities. One could do nothing, but this cost will only increase, as new regulations come in.

A more prudent thing to do, is to invest in optimization and harmonization of existing regulatory control environments, improve the efficiency of regulatory compliance activities and bring the increasing cost of compliance under control within the organization, regardless of its size.

## HOW CAN CAPCO HELP?

Capco believes in 'strategic compliance' and the establishment of a Unified Regulatory Control Office. We have an established approach and plan that can support your organization map out regulatory compliance activities, find synergies across functional and operational processes and models and identify the path to an optimized regulatory compliance model and a Unified Regulatory Control Office Structure fit for your organization.

Capco also have the right acceleration tools that can support setting up a regulatory monitoring team who can scan the regulatory horizon considering all existing obligations.

## CONTACTS

**James Arnett**

Partner

[james.arnett@capco.com](mailto:james.arnett@capco.com)

**Karan Kapoor**

Principal Consultant

[karan.kapoor@capco.com](mailto:karan.kapoor@capco.com)

---

## ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and investment management, finance, risk & compliance and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

To learn more, visit our web site at [www.capco.com](http://www.capco.com), or follow us on Twitter, Facebook, YouTube, LinkedIn and Instagram.

## WORLDWIDE OFFICES

### APAC

Bangalore  
Bangkok  
Hong Kong  
Kuala Lumpur  
Pune  
Singapore

### EUROPE

Bratislava  
Brussels  
Dusseldorf  
Edinburgh  
Frankfurt  
Geneva  
London  
Paris  
Vienna  
Warsaw  
Zurich

### NORTH AMERICA

Charlotte  
Chicago  
Dallas  
Houston  
New York  
Orlando  
Toronto  
Tysons Corner  
Washington, DC

### SOUTH AMERICA

São Paulo

**WWW.CAPCO.COM**



**CAPCO**  
THE FUTURE. NOW.