NAVIGATING COMPLEX REGULATORY ENVIRONMENTS

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In 2010, G20 representatives met in Seoul in South Korea to set out a regulatory roadmap to help the world's financial markets recover from the turmoil of the financial crisis. Today, almost five years later, some of those reforms – such as the reporting and clearing of over-the-counter derivatives and the Basel III capital framework for banks – are now beginning to be implemented. Other reforms, such as those dealing with regulation of the shadow banking sector and the resolution and winding up of failing institutions, still remain largely on the drafting table.

The planning, coordination and implementation of regulatory reforms that are intended to benefit a global, yet diverse financial sector, is a long and arduous process that we have followed closely through our annual Thomson Reuters Pan-Asian Regulatory Summits, and will go on for many more years. Meanwhile, the world does not stand still. New risks and regulatory issues continue to arise, creating more problems and management challenges for regulators and the financial sector alike.

THE ROLE OF TECHNOLOGY

Technology plays an ever greater part in today's regulatory landscape. The threat of cyber attacks impacting the financial sector is one of the hottest issues at the moment. Hacker attacks, banks with aging computer systems and competition from new financial technologies all have the potential to cause a great deal of pain for the financial sector. Many corporations have seen large-scale data leaks and IT security intrusions on an almost weekly basis in the past year, with potentially devastating reputational losses for the companies involved. At the same time, competition from the "fintech" firms threatens to redefine the landscape in the core business areas of large financial institutions. These small and nimble companies use the latest technologies and have so far avoided being lumbered with the same regulatory requirements as the bigger banks.

For now, the regulatory requirements keep piling up the pressure on banks, which have had to make large increases in their compliance hiring budgets over the past years in order to satisfy regulators. And there are few signs that things will slow down soon. Thomson Reuters tracks regulators and exchanges across the world, and in 2014 we saw more than 40,000 regulatory alerts – that is an increase of more than 50 percent from 2013, and an average of more than 150 regulatory changes per day. To add to the complexity, many of these regulatory changes will involve some degree of extraterritorial impact, such as the Dodd-Frank Act and the upcoming Mifid 2 rules.

Many companies struggle with the increased regulatory workload. Aside

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from the costs involved in building an effective compliance programme, there is also the challenge of finding qualified personnel to do the job. Still, the complexity can be daunting: a recent circular from the Hong Kong Monetary Authority said that out of all the derivatives trades reported to it during a trial period, more than one-third contained errors.

And for all the cost that comes with being compliant, the cost of non-compliance can be even higher. Fines and settlements for regulatory breaches have reached record levels, and it is unlikely that we have seen the end of it.

CULTURE AND CONDUCT

Regulators are now also increasingly concerned with banking culture and conduct. The FCA's Senior Managers Regime in the UK is one example of how regulators are attempting to hold senior management accountable for misconduct within the organization. Regulators in Asia are also expected to head down this road over the coming years, partly due to the increasingly international nature of many incidents. The rigging of Libor and foreign exchange rates, for example, was investigated simultaneously by regulators in Japan, Hong Kong, Singapore and the UK, to name a few.

"Tone at the top" is a slogan that has been around for a very long time in compliance. However, it has never been as relevant as now.

Money laundering and terrorist financing is another risk that continues to be highly relevant. Criminals have been using technology to stay one step ahead of regulators and banks, and use the financial system for illegal purposes. The fight against tax evasion, flight capital and human trafficking is also one in which banks find themselves at the centre of attention.

With the battlefield constantly evolving, banks need to have a strong risk management system and uniform client onboarding practices in place across the sector to ensure they know their customers and can onboard new customers without endangering the bank.

TAKING A HOLISTIC VEIW

Good risk management systems can also help companies take a more holistic view of the risks they face. Regulators have long indicated that they prefer to see a dynamic risk management approach instead of a "box-ticking" compliance culture.

On the markets side, it has been a tumultuous year for many companies here in Asia. There has been unprecedented volatility in financial markets across equities, foreign exchange and commodities. Yet, the opening up of mainland capital markets such as the Shanghai-Hong Kong Stock Connect scheme will continue, and with it will come many more opportunities for cross-border collaboration between Hong Kong and mainland Chinese regulators.

Meanwhile, across Asia cooperation on regulatory matters is also on the rise, such as with the development of the ASEAN Economic Community and the joint responses by several Asian regulators to U.S. and EU extraterritorial regulation. This is a welcome trend: reducing regulatory arbitrage in Asia will only serve to increase its global clout in regulatory policy matters and business competitiveness in the long run.

While stock markets have long since recovered what they lost in the financial crisis, the global regulatory rulemaking process necessarily moves slower and there are few signs that the tide is turning yet.

Effectively navigating this complex regulatory environment will require senior executives to tap into validated global and country specific information and data that will enable governments, regulators and companies to make critical decisions for themselves as well as their clients.

Sanjeev Chatrath is the Region Head and Managing Director for Thomson Reuters Financial & Risk (F&R) business covering Asia Pacific and Japan. He is responsible for client business in the region encompassing end to end client experience, account management, market development, Go to Market regional strategy, sales, operations, and technical functions.

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