W·M WEALTH MANAGER

Regulatory checklist: what to look out for in 2017

By **Selin Bucak** / 19 Jan, 2017

Wealth managers spent most of last year trying to decipher all of the regulatory changes that are looming ever closer and devising strategies on new systems implementation. However, this year the focus is going to shift towards themes rather than the nitty gritty of specific regulations.

The reality is 2017 is going to be a busy year for asset and wealth managers who need to focus on how to comply with Mifid II and Pripps, plus the Senior Managers Regime when its remit is expanded. However, a proactive approach can help firms address common themes in all of these, according to Andrew Strange, PwC director of centre of excellence.

'A lot of firms have a lot of things to do but there are some common themes that firms can address,' he said. 'Things like the value that's being offered, some of the wider governance implications or areas like communications.'

With both existing regulatory requirements as well as upcoming ones through Mifid II and Pripps, disclosure is a key focus. Therefore, companies that implement good disclosure, above and beyond the regulatory minimum to deliver greater transparency of information to clients, can actually comply with a multitude of regulation in one single swoop.

In its Financial Services Regulatory Outlook 2017, Deloitte also pointed out the importance of developing sustainable business models. 'Despite the uncertainty that characterises 2017, one fact is becoming increasingly clear: financial services firms will not be able to wait out this current period of difficulty without taking decisive and in some cases bold actions in response,' it noted.

They added that many of the issues in the industry are structural and therefore companies should overhaul their strategies for how they respond to regulatory change.

Importance of technology

David Strachan, Deloitte's head of EMEA centre for regulatory strategy and one of the authors of the report, also highlighted how technology can be used to increase the efficiency of compliance and risk management, while reducing costs.

'I think it's undoubtedly the case that we will see companies making increasing use of technology where possible to improve their competitiveness and take cost out of the business. That phenomenon looks set to continue,' he said.

'The scrutiny on costs and charges may well be that we see further movement away from more active investment management strategies towards the passive.'

Strange agrees that regulatory technology (RegTech) has to become a part of the solution for companies, especially for firms struggling with the volume of data involved in reporting requirements.

Meanwhile, Paul Miller, managing director at Knadel, admits that increased use of technology will drive up costs in the short term. However, developing modern systems and working towards a more digital environment will deliver cost benefits in the long term.

Not a new phenomena

Changing regulation is not a new phenomena, but what will be key this year is the ability to demonstrate compliance, according to Miller.

'It's no longer enough to say "I'm doing the right thing". It's about the idea of what you have to do to demonstrate conclusively that you are complying with regulation. The impact of that is on systems and the data you need to produce in order to provide the transparency.'

With data, one of the concerns is the security of that information. Consequently, this year will see even more emphasis on cyber security.

'I think it is something that will continue to be a focus for the coming years because it is an ongoing challenge as cyber security is permanently evolving as a threat, as are the things you need to put in place to protect yourself. It is a huge cost for businesses today and it's a cost that outside of the chief technology officers is not fully understood,' Miller added. •

Expected Regulatory Developments 2017

Q1

- FCA Advice Unit Guidance to be published
- UK Government to trigger Article 50
- BoE to publish stress test scenario and methodology for 2017
- European Commission action plan on retail financial services
- Report on progress of the Financial Advice Market Review - 1 March
- FCA Mission finalised – 2017
- European Parliament and Council to endorse remaining Regulatory Technical Standards (RTS) for Mifid II
- European Commission to approve amended draft RTS for Priips
- Consultation paper on details of expected extension of SM&CR to all regulated firms in 2018
- FCA expected to transpose all Mifid II rules into the Handbook - 1 April

Q2

- Final report on the prudential regime for investment firms
- Council and Parliament to approve delegated regulation (Priips)
- FCA final rules on Priips KID
- Final report on retirement outcomes review

Q1-Q4

- Report on EU corporate bond markets, on how market liquidity can be improved, the potential impact of reforms and market developments

Source: Deloitte Financial Services Regulatory Timeline