

REGULATORY COMPLIANCE: A LITTLE PROACTIVITY GOES A LONG WAY



Acknowledgments:
[Russell Ironside](#)
PRS Propositions Manager,
Refinitiv

Regulatory compliance has historically been viewed by the majority of capital markets participants as a necessary evil and an unavoidable cost of doing business. But perhaps it's time for firms to change their perspective and approach their various compliance initiatives proactively, and by so doing, leveraging those activities as a competitive differentiator.

Regulatory compliance has traditionally been seen by large numbers of capital markets firms as a cost of doing business and a necessary evil that has had to be endured, but never enjoyed. And while it's unlikely that any firm will get to the point where it relishes the prospect of complying with its inexorably growing number of regulatory mandates, for those organizations that approach the task proactively with the view to using it as a competitive differentiator – and possibly even a catalyst for change across the business – the benefits can be significant. These changes are as much a cultural shift and attitude adjustment as they are technology and data ones, although as with so many business processes across the capital markets, data invariably resides at the core of those challenges and solutions.

Firms on both sides of the industry have, over the course of the last decade, become used to doing more with less. It's now a universally accepted maxim, driven by bottom-line considerations and the need to focus on improved operational discipline and maximizing efficiencies throughout the business. And, if the first six months of 2020 are anything to go by, this trend is likely to gather momentum as buy-side and sell-side firms feel the pinch on the back of disappointing Q1 and Q2 results, which in all likelihood will translate into appreciable job losses throughout the industry once the proverbial dust from the COVID-19 pandemic has settled.

What is clear is that what was already a tough, complex and highly competitive operating environment is set to become a lot tougher and more complex to navigate for large numbers of market participants, although the use of regulatory data and ancillary services from specialist third-party providers is a feasible and practical means of mitigating a range of operational, reputational and regulatory risks. Such services can also be leveraged as a competitive differentiator rather than be seen purely as a sunk cost.

Light at the end of the tunnel

From a regulatory and operational perspective, there is light at the end of the tunnel ... and in this instance, it is not a train. The obvious solution is for capital markets firms to lean on third-party regulatory and data specialists like Refinitiv, which, over the years, has developed an intimate understanding of the practical implications of complying with large numbers of regulations from both a technology and a data perspective. The firm has the global reach and the breadth and depth of expertise to address industry-wide as well as regional and local regulations. "It comes down to the global nature of the business and the fact that we have a global reach and are able to service our clients irrespective of the region they are in," explains Russell Ironside, proposition manager at Refinitiv, on the issue of why Refinitiv is so well positioned to help its capital markets clients meet their regulatory obligations. "Refinitiv, born out of Reuters and Thomson Reuters, is global in nature and consequently has a broad range of regulatory solutions that we can offer our clients. There's also the leading-edge technology that we utilize, including the ability to provide solutions via the cloud, which is being more readily adopted by our clients as an important part of their infrastructure plans."

According to Ironside, Refinitiv's clients benefit through its global network because it has people in many different locations throughout the industry, which is key to its ability to serve its clients. "And, irrespective of where clients are located, we have people on the ground who can help them and who are able to understand the regulation – even if it is in a local language and whether it pertains to a local environment – allowing us to create our solutions so that they work for clients in their specific locations," he says.

Current regs

From a European perspective, the introduction of the revised Markets in Financial Instruments Directive (MiFID II) at the start of January 2018 has had the greatest impact of any regulation across the Pan-European marketplace for pretty much all market participants. However, that doesn't mean to say that those firms not directly subject to its purview – i.e., capital markets firms based in North America and the Asia-Pacific regions – are not already complying with its various tenets, given that MiFID II is now seen globally as a best practice playbook. It's also pertinent to remember that capital markets firms located outside of the EU but who service EU-based clients are required to comply with certain MiFID II rules.

The Directive, conceived as a means of introducing greater transparency and improved controls to the markets comprising the bloc, has long been in Refinitiv's regulatory crosshairs in terms of partnering with its clients on their compliance initiatives. To that end, Refinitiv provides the following MiFID II support: reference data; pre- and post-trade transparency support by way of links to a number of Approved Publication Arrangements (APAs) for trade reporting purposes; systematic internalizer (SI) determination, allowing user firms to accurately monitor their SI thresholds; best execution monitoring and reporting, including RTS 27 and RTS 28 support; research, permissioning and unbundling, including access to the firm's Refinitiv® StarMine® investment research analytics and modeling tool; and transaction reporting and record-keeping support, allowing clients to report transactions in any MiFID II financial instruments to their local regulator or approved reporting mechanism (ARM).

When it comes to the Securities Financing Transactions Regulation (SFTR), introduced by the European Securities and Markets Authority (ESMA) expressly to reduce systemic risk around securities lending and increase transparency around collateral reuse, Refinitiv provides reference data fields that can be used to classify any underlying security or collateral referenced by an SFT. It is also creating new data fields to provide additional details about the quality of those underlying securities and/or collateral, as required by the regulation.

With respect to the EU Benchmarks Regulation or BMR, adopted in January 2020 in response to the LIBOR scandal to ensure that benchmarks are reliable, transparent and are administered without conflicts of interest, Refinitiv provides its clients with a regulatory inventory that contains the full live universe of benchmark Reuters Instrument Codes (RICs) in accordance with BMR. The inventory comprises 24 supporting fields, including RICs, PermID@s and associated administrator details.

Future regs

In terms of upcoming regulations that Refinitiv is already focusing on, the Fundamental Review of the Trading Book (FRTB) and the LIBOR transition are the two most prominent. FRTB, formulated by the Basel Committee on Banking Supervision and set to come into force in January 2023, is a prudential framework that defines the methodology by which banks must calculate their minimum capital requirements as a means of protecting them from excessive market risk exposure. Refinitiv has already developed a solution to deliver executed trades and committed quotes across multiple asset classes to help banks comply with the Risk Factor Eligibility Test (RFET), which assesses the liquidity of inputs into their risk models, while the new Refinitiv® Trade Discovery service, developed in conjunction with banks and market infrastructure providers, delivers access to real price observations (RPOs) for bonds and cross-asset-class OTC derivatives.

From the end of 2021, UK banks will no longer be required by the Financial Conduct Authority to contribute to LIBOR, which means that alternatives to the benchmark are currently being explored. To that end, regulators and central banks have released a series of overnight transaction-based risk-free rates (RFRs) in the interim, which Refinitiv aims to support by providing the necessary data itself or by publishing third-party content. It is also committed to creating new term-structure reference rates, starting with sterling, to replace the tenor-based LIBOR rates, which the overnight risk-free rates do not do.

These examples of Refinitiv's regulatory initiatives are by no means the only regulations on its radar – Solvency II, IFRS 9 and the Central Securities Depositories Regulation, for example, also feature prominently in its stable of regulatory services that it currently offers its clients. As previously detailed in this paper, it also has the capacity to focus on regional and local regulations by virtue of its global network of regulatory subject-matter experts.

Refinitiv's people power

In Q1 2020, WatersTechnology and Refinitiv collaborated to produce an evaluated pricing white paper, [Fair Valuations – What Lies Beneath](#), where one of the key themes to emerge was the extensiveness of the firm's global network and the strength of its subject-matter experts within that network on hand to provide color and context to the data they produce, and guidance to the clients if and when they might need it. "It's a similar case with regulation and our reference data," Ironside explains, describing as "people power" one of the key aspects of the value Refinitiv offers its clients through its extensive data services. "We don't provide paid-for consultancy services, but that is how it has worked out in the past," he says. "Wind the clock back to 2017 when banks were scrambling to get their operations in order to prepare for MiFID II and that's exactly what we were doing – we had regular daily and weekly calls with the larger institutions and we provided them with test data even when it wasn't necessarily available, just so that they could validate their internal systems and ensure that their 'pipes' were connected appropriately ahead of live data being made available by sources such as ESMA."

Summary

Proactive compliance practices, underpinned by accurate and reliable reference data and other regulatory datasets that are centrally stored, managed and governed, not only allow capital markets firms to comply with their various regulatory mandates, but they also lead to greater transparency across the business and increased levels of trust from investors and shareholders alike. Regulatory compliance is no trivial undertaking for firms, especially when it comes to the complexity of current regulations—Mifid II, SFTR and BMR—and ones set to enter the statute books in the near future—FRTB, the LIBOR Transition and RFET—although regulatory specialists like Refinitiv are well placed to not only help their clients understand specifically what the regulators require of them, but they also have the data, technology and personnel to help alleviate much of their regulatory burden.

Across the capital markets, firms' reputations can either be enhanced or tarnished depending on the outcomes of the now relentless regulatory scrutiny from their respective competent authorities. And while no regulatory body would admit to providing firms that have their regulatory houses in order with something of a "light touch," showing investigators that compliance is a priority at the firm by way of proactivity and increased levels of transparency can't hurt. It goes without saying that the financial services industry is not an easy place to be right now and that isn't going to change anytime soon, although managing one's regulatory obligations accurately and efficiently is likely to make it just that little bit easier.

Refinitiv is one of the world's largest providers of financial markets data and infrastructure, serving over 40,000 institutions in approximately 190 countries. It provides leading data and insights, trading platforms, and open data and technology platforms that connect a thriving global financial markets community – driving performance in trading, investment, wealth management, regulatory compliance, market data management, enterprise risk and fighting financial crime.

Visit www.refinitiv.com/regulation



@Refinitiv



Refinitiv

REFINITIV[®]
DATA IS JUST
THE BEGINNING[®]

