# Regulatory Change Discipline – Dedication's What You Need

Every asset manager is familiar with the rate and range of change in the regulatory space affecting the industry, and that over the last few years, this has been accelerating. Some firms have seen their regulatory teams increase in headcount by significant multiples, and it is not unusual to find a compliance team that is now five times (or more) bigger than it was 10 years ago. Firms define their regulatory teams differently, but essentially the three main disciplines are Compliance Advisory, Compliance Monitoring, and Compliance Reporting. Very few have a dedicated Regulatory Change Team (i.e. a team responsible for implementing new regulatory change that impacts the firm), so why is this, and is it time to address it?

## What is the idea behind the Regulatory Change Team?

A regulatory change team is a convenient place to push all regulatory change that affects a firm, so that the entire regulatory change process is managed in a single place. The team work closely alongside the other compliance disciplines, as well as the business and technology teams (where appropriate) to deliver the right solutions. The expertise within the regulatory change team is key because regulatory change is different to other types of change that asset managers might go through. A mature regulatory change team will understand what those differences are, what special challenges are presented by regulatory change projects, and how best to navigate these. This means that the team will be able to implement regulatory change more efficiently and more effectively. In turn, this means that a firm's exposure to unfavourable regulatory scrutiny or even breach is much reduced. The team should have a reporting line through to senior management within the firm which should include the Chief Compliance Officer, (who might also be considered the accountable executive for every regulatory change being handled by the team, thus giving them sufficient management "clout" to manage and implement regulatory change).

Whilst acknowledging that regulatory change is a separate discipline, project priorities will still need to be set alongside the priorities of other change initiatives within the firm, through an appropriate body or management structure that considers all change priorities together.

## Why is Regulatory Change a Specialist Discipline?

One question that often arises is how regulatory change differs to other types of change. There are many reasons, but essentially the main ones are: -

- **Critical** – regulatory compliance is critical for firms, so regulatory change becomes critical.
- **Mandatory** – there is no opting out of mandatory regulation.
- **Fixed Timeframes** – dates set by regulators are fixed. You cannot flex your delivery date because you are behind.
- **Apathy** – not everyone in your firm will be excited by the prospect of regulatory change.
- **Interpretation of Regulation** – regulatory guidance is rarely black and white. Interpretation can vary within and across firms.
- **Revision of Rules** – it is not unusual for regulators to move the goalposts just before implementation.

When a regulatory change team is used to dealing with the special challenges that come with regulatory change, they are better prepared to deal with that regulatory change successfully.

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## Where can a dedicated Regulatory Change Team add value?

There are multiple disciplines to which the regulatory change team can contribute.

- **Horizon Scanning** – what is the upcoming regulation, how significant is it, and does it impact your firm? The regulatory change team can help complement other team's horizon scanning responsibilities and pull together information from a variety of sources to produce a fully consolidated picture.
- **Impact Analysis** – how much of an impact will upcoming regulation have on your firm and which areas of the business are affected? The regulatory change team can work with compliance advisory and business representatives to assess the impact of any upcoming regulation before any formal project is started.
- **Project Initiation** – kicking off a new project for upcoming regulation alongside in-flight regulatory initiatives, identifying the right stakeholders and contributors, and prioritising accordingly.
- **Project Management** – managing all regulatory change initiatives through to successful implementation, managing stakeholder expectations, priorities, any design, build and testing, and ensuring that roll-out is on time, on budget, and fit for purpose.
- **Communication** – keeping all impacted areas of the business informed on project progress, including senior management.
- **Education** – making the business aware of what the changes are and how the firm (and individuals) will be impacted.
- **Handover to BAU** (business as usual) – making sure that the right BAU team in involved in the appropriate change early in the project lifecycle and assumes responsibility for the regulatory change as it ceases to be a project and starts to be a business process. This is particularly important where it falls into a regular production process (e.g. trade reporting) and ceases to be a project change initiative.

So,… is the time right now to establish a Regulatory Change Team within your organisation? The answer depends on several factors: -

- **Organisation Size** – is your organisation large enough to justify a dedicated regulatory change team? Small asset management firms are unlikely to be large enough.
- **Regulatory Perspective** – how seriously does your organisation take their regulatory responsibilities? Is it front and centre in terms of importance, or an annoying side to the business? If it is important to you, then demonstrate its importance by establishing a dedicated change team.
- **Regulatory Change Volume** – how much regulatory change are you facing in the next few years? Most horizon scanning searches look ahead to 2 years in advance, so if your assessment identifies a significant regulatory book of change in that period, then establishing a regulatory change team now would seem logical.

## Other Considerations

- **ESG –** With the advent of ESG and the boom in regulation around ESG, your regulatory book of change could easily seem even more daunting. Some firms have reacted to this by firmly placing ESG regulation into their ESG change delivery teams, and not the regulatory discipline. ESG is a specialism it itself, so is ESG regulatory change best suited to the ESG or the Regulatory Change Team? Firms will need to determine this themselves, but there should be acknowledgement that there is sometimes cross-over between ESG and other regulation.
- **Resourcing Levels –** An obvious issue that can arise if you do have a dedicated Regulatory Change Team, is that the size and number of regulations impacting a firm can vary greatly over time. For example, the preparation for MiFID II required a huge resourcing effort during 2017 and into early 2018, but after implementation, the number of staff working on regulatory change dropped significantly. Therefore, any firm with a Regulatory Change Team will need to flex the size of the team as and when required. What this essentially means is that staffing your Regulatory Change Team requires an innovative approach. This could mean transferring team members into or out of the team as required or bringing in specialist regulatory change delivery contract/consulting resource at times of increased workload.
- **External Expertise –** Aa alluded to above, any dedicated regulatory change team must be open to bringing in contract/consultancy specialist resource as and when required for very specific regulations, at times of increased regulatory change workload, or to address short-term skills gaps. It is the ability to flex the size of the regulatory change team according to demands that is a key aspect of the way it operates efficiently.
- **Repeatable Discipline –** Key to the success of a Regulatory Change Team is the establishment of the right structure, governance, and reporting lines over the regulatory change discipline. It is important to create the right team and change methodology, and that the rest of the business understands their role and importance. Management backing to establishing and championing your regulatory change team is critical if they are to be effective.

The asset management industry will continue to see more and more regulation in the future. With different and divergent regulatory regimes and more granular requirements, change requirements on firms will only increase. Whilst asset managers will always have discretionary change initiatives (i.e. things they want to do), the regulatory changes (i.e. things they have to do), will always be there, and therein lies the natural separation between regulatory change, and all other change. If you decide that it is time to dedicate a team to regulatory change, you will be a step ahead of the game.

If you have an existing regulatory change team/function that needs review, or are considering setting one up, ISC can help you.

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