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Strategy of regulation or regulatory strategy

INITIO

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Summary

Executive summary

Introduction and context

For many years now, ***new regulation comes out as a top concern in financial industry surveys.*** Implementing the vast amount of new regulation proves to be very challenging for all stakeholders, even regulators themselves, in terms of scoping, budgeting and timing. Moreover, the ***new regulation is truly transforming the context to do business in*** at various levels and should be top of mind in strategic thinking, business model design, management and day-to-day client servicing and processing. Implementing new regulation is not just about becoming compliant anymore, it is all about anticipating and understanding the transformation the regulation is leading to in order to make the change happen in a value adding and winning way. Regulation are setting the rules of the game and how can you be good at playing the game if you do not understand the rules? Implementing the changes effectively and efficiently will create competitive advantage in the new banking business context. Having the right governance and organization in place to incorporate new regulation will as such become a major competitive advantage in itself.

So, one should expect that in this transformational context financial institutions have organized themselves in order to cope with this externally imposed transformation but ***surprisingly only few seem to have incorporated the constant regulatory changes appropriately in their governance and processes*** enabling them to truly adapt themselves to the new financial world to do business in. Some banks even still seem to be in denial mode from many perspectives, opposing against what they consider to be 'overregulation' and considering the new regulation to be something 'external' put on top of them rather than something that is changing them from inside out. Banks are often dealing with the new regulation in *simple project mode,* applying merely classical project portfolio management governance and methodologies in a bottom-up, article by article way without top-down strategic direction. Existing process and IT systems are adapted in a fragmented way where required without looking at the broader picture. As a result, many banks seem to be running constantly after the facts, lagging in implementation, spending big money inefficiently in a cost-reduction context, flirting with non-compliance and -what's worse- not realizing the transformational nature of what is ongoing until losing business.

This article aims sharing our insights in the regulatory process with you and as such creating 'regulatory awareness', calling subsequently for having a governance and strategy in place –a regulatory strategy- to cope with the new regulatory environment and equally to incorporate the regulation in their strategic thinking, having a strategy of regulation. To this end, the first section will briefly describe the main elements of the regulatory process. Understanding the regulatory process will allow you to better assess its impact and design the governance process to deal with it in your organization. In the second section of the article we will provide some guidance and best practices on how to organize the regulatory process in your organization. ***There is no one-size-fits all for this and each organization has to look at its specific context, taking into account the size and nature of business, to put in place its optimal organization and process.***

The regulatory process from a policymaker perspective

Drivers of regulatory changes

There is little disagreement that the amount and scope of new regulation continues to increase with timelines to implement them shortening. Just having a brief look at the below regulatory calendar for financial industry in the EU (figure 1 and annex 1) learns that financial institutions are still dealing with roll out of multiple new regulations that entered into force over the last years whilst already facing the challenge of major new regulation whose enforcement is imminent. They are operating in a continuously changing context which is difficult to oversee and understand in a top-down way.

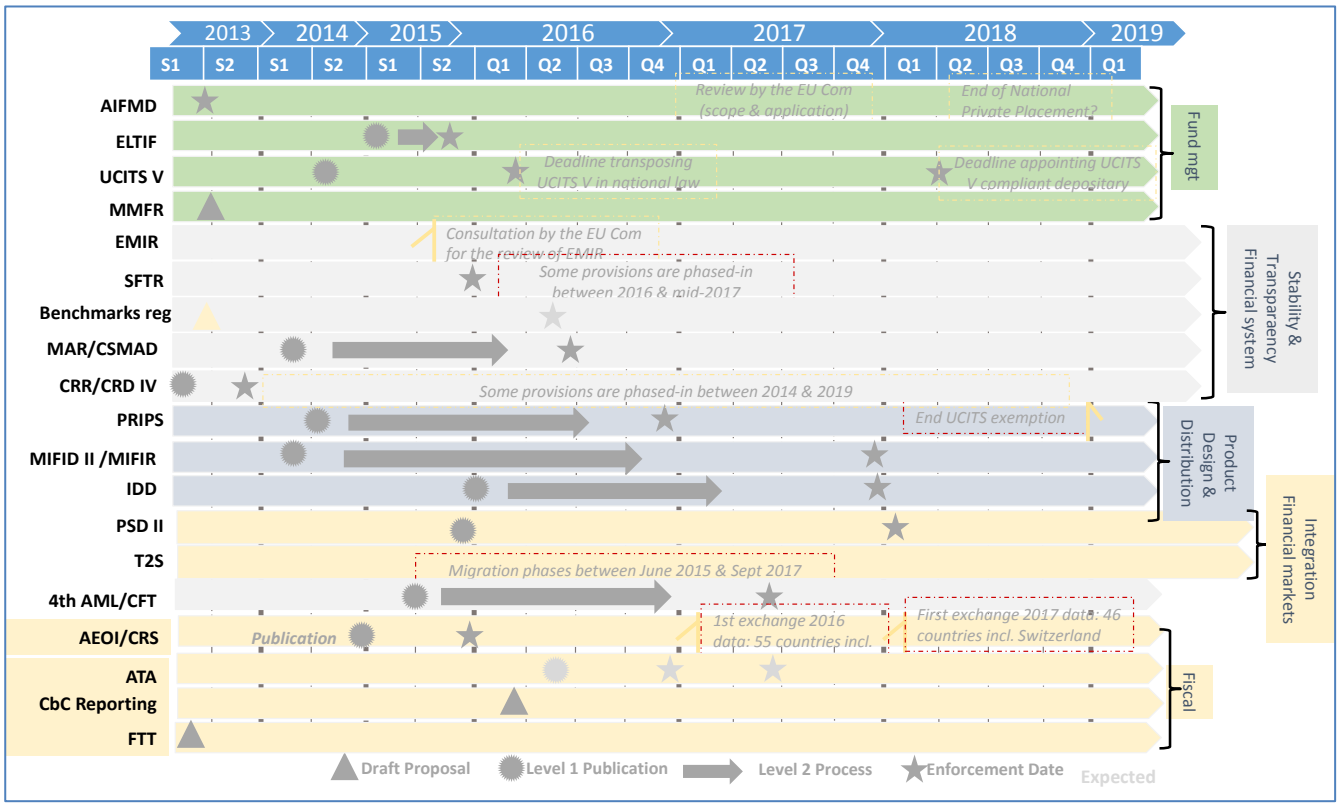


Figure 1: Regulatory overview financial industry in the EU

But what is driving this regulatory environment and what is the very nature of it? The high-level, generic answer to this question may sound surprisingly simple but has to be bore in mind to understand the context of financial services regulation: ***new regulation is required because the world of banking is changing rapidly as the world itself in which we are banking is changing rapidly***. Regulation is policymaker's response to what is happening in the real world in order to structure the intended scope in an organized way towards the regulatory objective. Main illustrative examples are the ***globalization*** and **evolution towards increased *consumer/investor protection* and *corporate responsibility*** pushing policymakers to enhance confidence and build resilience by establishing a set of regulation.

Globalization has been a key driver for new set of international regulation in financial services. A global economy and the creation of single markets in various regions created the need and context for global banking operating in many countries looking for yield and diversification (investment opportunities, access to new pools of funding, etc.). Banks became big and complex conglomerates for which new operating mechanisms were designed and a new prudential oversight and control rules were required (Basel I/II/III, EMIR, UCITS, AIFM, etc.).

The evolution towards increased *consumer/investor protection* and *corporate responsibility* are other important drivers that has led regulators to establish sets of new rules aiming at making the interaction with clients fair and transparent (MIFID, MAD, PRIIPS…), providing clear guidelines on internal governance and control processes, having banks play an important role in AML/FATF, fiscal reforms, etc.

Besides the abovementioned evolutions leading to new and revised regulation, marco-economic shocks are strong catalysts for the above drivers leading to establishing additional regulation and strengthening existing regulation in an accelerated way, the recent financial crisis being a main example of this whose effects on regulations are still being rolled out and designed.

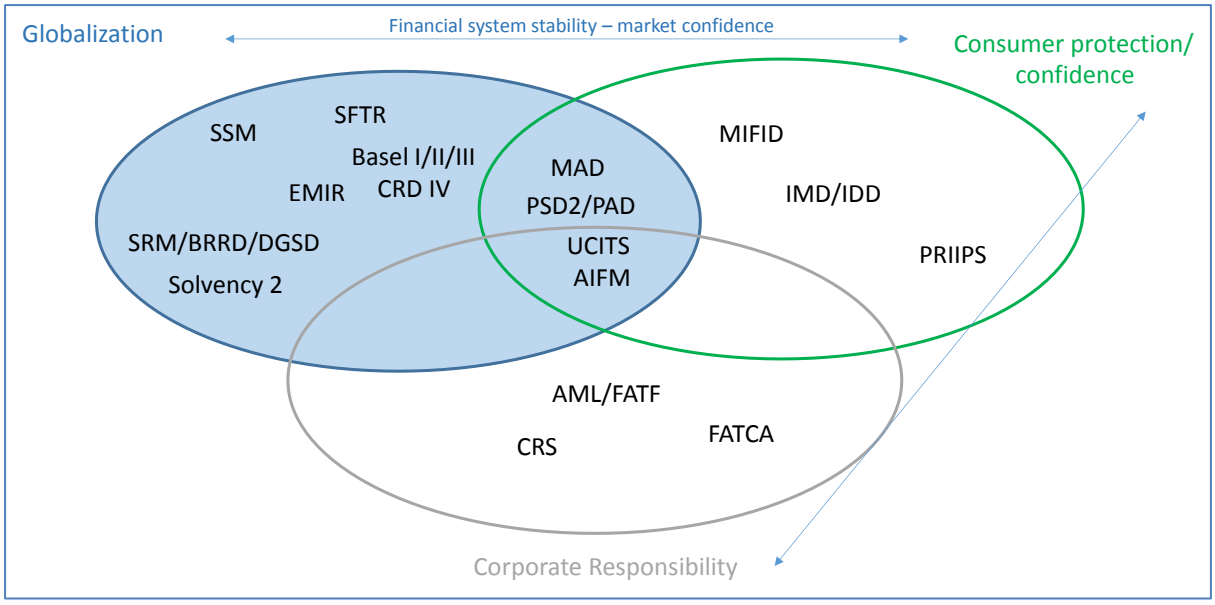


Figure 2: Drivers of regulatory change

Regulatory process

The way financial policymakers respond to the abovementioned driving changes however varies from many perspectives. Let's start by saying that the list of policymakers is long[1] as every country has one or more of them, interacting to some extent with one another. So the way regulation is established depends in first order on the geography with decision taken at national level. That said, in this world becoming more and more globalized, there is more and more convergence on some regulatory matter attempting to foster a level playing files, supported by international political consensus for instance coming from G20. At this end, on the international level, various organizations have been created enabling policymakers to interact and set standards sharing knowledge and experience. Main international organizations influencing regulation are:

- ***Basel Committee on Banking Supervision*** (within Bank of International Settlements) providing a forum for cooperation on banking supervisory matters and setting standards which are often followed subsequently by the nations participating in the committee.
- ***Financial Stability Board***, created in 2009 to monitor and make recommendations about global financial system aiming at increasing stability with membership of national regulators and some other international organization such as the Basel Committee, IOSCO, IAS, etc.
- ***International Organization of Securities Commissions*** (IOSCO)
- **International Association of Insurance Supervisors** (IAS)
- **International Monetary Fund** (IMF)

The creation of a banking union with uniform regulation in the European Union and Eurozone can be considered as a specific, advanced state of such international collaboration where in the context of the more general political and economic integration in Europe, the majority of policy making for the financial industry is made the EU level.

Within their geography, policymakers themselves have to follow a legislative process in order to establish new regulations. The way this legislative process is executed will determine to a large extent the timing and even the final content of the regulation as it requires political consensus and consultation of various stakeholders impacted by the regulation, technical committees and standards, etc. which may be complex depending on the scope and intent of the regulation.

Policymaking in EU is a good example what such process typically is about illustrating its complexity and impacting the implementation process that financial institutions are confronted with. Within the EU the so-called ***Lamfalussy framework*** is applied for policy making in financial industry distinguishing 4 levels as shown.

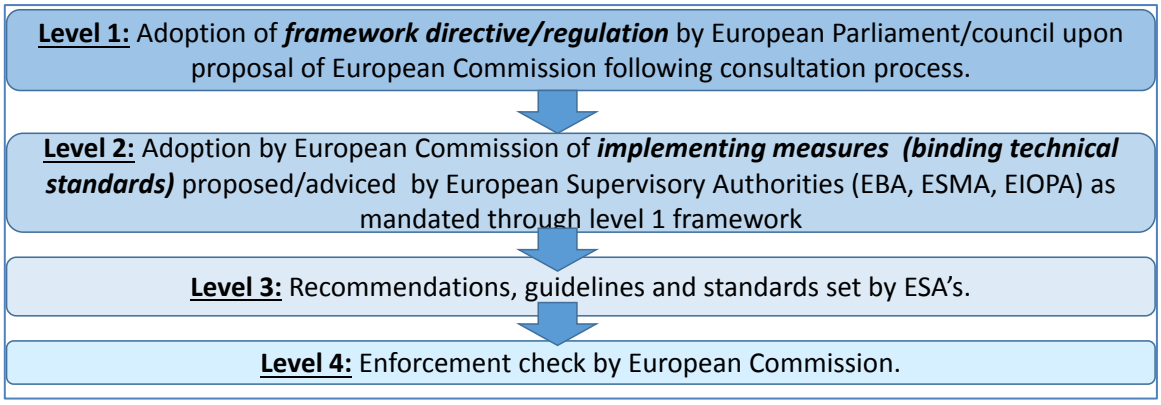


Figure 3: Overview regulatory process in the EU

[1] Please refer to the list of financial regulatory authorities by country in https://en.wikipedia.org/wiki/List_of_financial_regulatory_authorities_by_country

Although the process is a major step forward from a regulatory perspective and for sure has facilitated establishing regulation at the European level, it is inherently challenging for financial institutions from an implementation perspective for following reasons:

- The main issue lies in the non-alignment of timing of the level 1 framework and level 2 implementing measures. The level 1 adoption includes the general framework and principles as well as the enforcement date. With the adoption of Level 1, a list of topics requiring level 2 review is established, initiating the next step in the process. The level 2 measures cover the binding regulatory and implementation technical standards telling you how the level 1 framework and principles should be put in place.
- Following level 1 adoption, the level 2 consultation and adoption process is not established clearly in terms of timeline and approach. The various topics can follow various timelines with some topics being dealt with close to enforcement date as the enforcement date set at level 1 is made depending on the level 2 measures. The extent to which implantation will be challenging depends largely on the amount, scope and timeline of the level 2 measures.
- The level 2 measures tend to become more and more detailed prescribing exactly how things need to be done. This observation is one of the main causes that financial institutions have the feeling that there is overregulation leaving no room for differentiation in achieving the objectives of a regulation. Moreover, there is no organized impact assessment with regard to the level 2 measures although industry is invited to provide opinion in the consultations.
- Although the level 4 includes a mechanism to control transposition there is no real post-review with respect to the contents of the regulation itself in order to assess its effectiveness and allow adjustment. Did the regulation achieve the intended goals? Have there been any side-effects or unwanted effects? What was het cost of implementing, post-review of the cost-benefit analysis.
- During the process, an overwhelming amount of information and documents is produced which is challenging to cope with.

Regulation as driver of change

In the above section we have highlighted that regulation is a response to changes in the real world and we briefly pictured the regulatory process from a policymaker perspective. With regulation, the policymaker is trying to make change happen towards a defined objective. It is implicitly a driver of change in itself for the scope it is aiming at. These changes should collectively converge towards the initial intent of the regulator and policymaker and it is fair to say that often they do… but not always. In this complex world, the effect of new regulation is not always easy to predict. Policymakers around the world acknowledge this and do perform impact assessments in order to support the decision making in the policymaking process. In the EU this is typically a 6 step process performed prior to the draft proposal of the level 1 text, engaging external and internal stakeholders and producing a public Impact Assessment report which is reviewed by an Impact Assessment Board (see http://ec.europa.eu/smart-regulation/impact/commission_guidelines/docs/iag_2009_en.pdf for more information):

1	identifying the problem
	Describe the nature and extent of the problem.
	Identify the key players/affected populations.
	Establish the drivers and underlying causes.
	Is the problem in the Union's remit to act? Does it pass the necessity and value added test?
	Develop a clear baseline scenario, including, where necessary, sensitivity analysis and risk assessment.
2	Define the objectives
	Set objectives that correspond to the problem and its root causes
	Establish objectives at a number of levels, going from general to specific/operational.
	Ensure that the objectives are coherent with existing EU policies and strategies
3	Develop main policy options
	Identify policy options, where appropriate distinguishing between options for content and options for delivery mechanisms (regulatory/non-regulatory approaches)
	Check the proportionality principle
	Begin to narrow the range through screening for technical and other constraints, and measuring against criteria of effectiveness, efficiency and coherence.
	Draw-up a shortlist of potentially valid options for further analysis.
4	Analyse the impacts of the options
	Identify (direct and indirect) economic, social and environmental impacts and how they occur (causality).
	Identify who is affected (including those outside the EU) and in what way.
	Assess the impacts against the baseline in qualitative, quantitative and monetary terms. If quantification is not possible explain why.
	Identify and assess administrative burden/simplification benefits (or provide a justification if this is not done).
	Consider the risks and uncertainties in the policy choices, including obstacles to transposition/compliance.
5	Compare the options
	Weigh-up the positive and negative impacts for each option on the basis of criteria clearly linked to the objectives.
	Where feasible, display aggregated and disaggregated results.
	Present comparisons between options by categories of impacts or affected stakeholder.
	Identify, where possible and appropriate, a preferred option.
6	Outline policy monitoring and evaluation
	Identify core progress indicators for the key objectives of the possible intervention
	Provide a broad outline of possible monitoring and evaluation arrangements.

The Impact Assessment is a major element allowing to identify the changes the regulation will lead to and ensure its quality and effectiveness. It is also very valuable in evaluating upcoming regulation from a financial institution perspective and should be part of the regulatory review process. The impact assessment report allows you to understand the upcoming regulation as it provides a lot of background information. It even goes as far as quantifying some of the impact indicating costs for implementing the regulation on a one-off and ongoing basis.

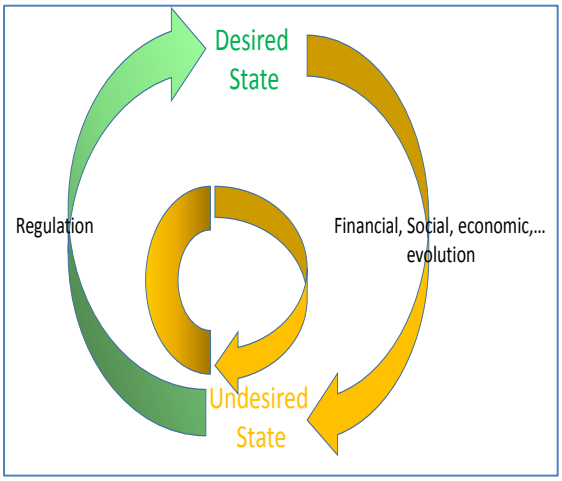


Figure 4: Cycle of change

Unfortunately, in this complex world and despite impact assessments, the changes the regulation initiates are not always fully predictable and assessable. Impact assessments are not performed systematically and even when performed they are not always complete or accurate. Moreover, the impact assessments are written from a policymaker perspective, not from a business stakeholder perspective and they are focusing on a single regulation instead of on the combined effect of multiple regulations. The Basel capital requirement rules have led to undesired balance sheet arbitrages with development of techniques and products that were non transparent and allowed over-leveraging. Opening of markets have led to bigger and more complex financial institutional whose oversight and control became increasingly difficult whilst their sheer size could jeopardize financial stability. So obviously the regulation can have single or combined side-effects in short or longer term that were unknown and are unwanted. These unwanted impacts can have various root causes related to timing of the regulation, to limitation in its regional scope (differences in regulation in different countries/regions), to limitations in its product scope (excluding certain financial products for instance),… all of these potentially disturbing business models and market.

The quality of regulation and the regulatory process will determine to a large extent its effectiveness and the occurrence of side-effects. The ability of the policymakers to monitor the regulation post enforcement and their ability to mitigate unwanted effects would further contribute to the effectiveness of policymaking.

The regulatory process from a financial institutions perspective

In the previous section we have briefly described the main elements of the regulatory process. In this section, we are going to share our thoughts on how financial institutions implement regulatory change starting with listing some observations of the current state of play indicating that financial institutions are not always good at implementing regulations. Subsequently, we will present some guidelines and best practices that should allow to get better at implementing regulations.

Observations of current state

Let us start by making a comparison. How do you deal with unwanted events that create uncertainty and fear? Psychologists would answer this question quickly by saying 'you fight or flee'. Although the comparison is far from being perfect, that is what many financial organizations seem to do when facing regulatory change: they oppose to the change in many different ways often unconsciously or they run away from it applying procrastination or only dealing with the event in a superficial way.

There are some key differences between regulatory projects and other *change-the-bank* projects.

Change-the-bank projects are ***internally driven from the outset***. The project is born internally as a good idea, subsequently confirmed as being ***in line with the strategic vision and made part of the business plan*** of the financial institution. A business case is drawn up, often including various impact analysis. During all there preparing steps, the scope is discussed at multiple occasions and many people at various levels throughout the organization are engaged, receiving information and collecting their input. Sponsorship and ownership are often clear. The project got focus and sufficient time is spent on it. The project is added to the project portfolio with high level of control from a project management perspective allowing to decide on scope, timing and budget in a balanced way and taking into account other projects. Once launched, it passes in project mode seamlessly under conditions allowing effective and efficient implementation.

The steps preceding a regulatory project are completely different in nature. The regulatory project is ***externally driven*** through the regulatory process described above. A regulatory initiative is born often without much stable information available to work on and without clear incentive to start working on it from a financial institution perspective. The upcoming regulation will likely be put on a regulatory radar screen internally with some mention in strategic reviews or business plan. The financial institution could subsequently be engaged in the external consultation process directly or indirectly through financial industry associations, reviewing draft level 1 text and participating in the impact analysis. Only very few people internally are likely to be consulted. Focus and time spent will be limited. Sponsorship and ownership will very often not be clear yet with no-one volunteering to take it on. The level of governance and process in place to cover the early stage in the regulatory process are often unclear and even non-existing in many financial institutions. It is only when level 1 text is adopted that most financial institutions start putting some governance around the upcoming regulation often adding the project to the project portfolio with known enforcement date but without good understanding of scope or required budget. Ownership and sponsorship are often still not clear yet and an inherent risk of lack of focus and time spent exists. As a 1st step an impact assessment is performed internally whose result will define scope, budget and timing of the regulatory implementation process and be included in business plans, capacity plans and similar management tools. At that moment the regulatory project enters into competition with other regulation projects and internally driven projects, often requiring arbitrages at project portfolio

management level. Clearly there are some internal obstacles for implementing regulatory change effectively and efficiently.

On top of these, referring to the regulatory process description above, some external factors jeopardize classical project management: local transposition, level 2 measures and level 3 guidelines. The fact that level2 measures and level 3 guidelines are not known at moment of level 1 adoption and that local transposition could add some elements to the regulation creates externally driven, out-of-control variability from a project management perspective potentially leading to scope extensions, tight timelines and budgeting issues. This observation has led to regulators themselves having to revisit planning and introducing even more variability into regulatory projects.

Finally, regulatory change projects require organized ex-post monitoring to check whether the implemented change is in line with market and regulatory expectations.

So what does this all lead to? Below we indicate some issues that many financial institutions are facing when dealing with regulatory change:

- ***Regulatory projects are sometimes missed completely.*** This might come as a surprise but due to the lack of regulatory governance and focus even large financial institution sometimes completely miss an upcoming regulation in all or parts of their organization, not having it on their radar screen or having underestimated impact.
- Cost of non-compliance is often underestimated based on historical assumptions. Being non-compliant or not achieving compliance in due time is not an option anymore. Not only are regulatory sanctions becoming more and more significant, the reputational damage can be very high in the longer term. For the same reason we would not recommend design-to-cost approaches where regulatory change has to be implemented in a pre-defined budget even without first assessing impact.
- ***Regulatory projects are often started too late or not progressing adequately at the early stages of the project.*** The lack of focus and time spent on a regulatory change especially in the phase prior to level 1 adoption implies that precious time is lost in the beginning jeopardizing compliance at enforcement date. Even once the level 1 text is adopted, sometimes no immediate action is launched due to lack of preparation or resource planning.
- ***Regulatory projects are often not budgeted sufficiently in advance.*** If a financial institution does not include a well-estimated placeholder in its financial plan for the regulatory change from the early stages than there is a high risk that at the moment the project is clearly defined, it will have to look for budget and execution capacity. As in current times of budget constraints it is unlikely that budget or execution capacity are available, 'arbitrages' will be required from a PMO perspective, having to reschedule other projects and/or making compromises on the end-result.
- As ***regulatory change are often not fully integrated in the strategic review and business planning processes, no holistic, top-down strategic direction*** is given on how the regulatory change must be implemented. Such strategic direction would be very useful in defining the business requirements for implementing the regulation. Often, it is within each regulatory project itself at different moments that impact assessments and design choices are made missing the global picture that would ensure consistency and could optimize

implementation and roll-out. For instance, many programs require adapting instrument files. Such changes can be bundled from an It and testing perspective.

- ***Classical waterfall project methodologies with sequenced business requirements, specifications, development, etc. tend to be inadequate for regulatory projects*** as major parts of scope can only be defined in an iterative way after standards and guidelines becoming clear with regulators and financial industry clarifying. Applying classical project methodologies entails a risk of not managing the project in an optimal way, for instance overspending as teams that were allocated cannot start action.
- ***Knowledge management with respect to regulatory change is not organized optimally.*** There is no planned approach on how to deal with the high volume of information on the regulation and more in general on how to acquire knowledge and expertise about the regulation. Often, regulatory projects are slowed down (slow decision taking) or not delivering correctly (design errors) because the knowledge is not made available or applied effectively.
- ***Change management and knowledge sharing with respect to regulatory change are not managed optimally.*** Preparing your organization and employees for the changes in financial industry is a key success factor and should be a company objective in itself. Having each single regulatory project to do its own change management and knowledge sharing is not sufficient. Moreover, change management and knowledge sharing elements of regulatory change are often neglected and left to the discretion of program management.

Guidelines and best practices for better organizing regulatory change

In this section we will list some guidelines and best practices which will allow you to design an internal governance fit to review upcoming regulation adequately and holistically and mitigate the negative elements of the external regulatory process on implementations. In addition to the governance recommendation we will make various suggest how to manage regulatory projects adequately, avoiding the pitfalls outlined in previous section.

The extent to which these guidelines can be applied varies on the type of organization you have and the specific context. There is no one-size fits-all, proportionality principles have to be applied and some guidelines do require a level of maturity in the organization.

Regulatory governance guidelines

- Establish an ***Enterprise-wide Regulatory Review and Change framework*** describing organizational arrangements with respect to regulatory overview and change. Have the framework accepted at senior executive and Board levels. We recommend the framework to include most items described below.
- Establish upfront ***clear ownership*** with respect to regulatory review overall, centralizing the ***regulatory overview*** function preferably into one role (Chief regulatory officer) and in addition creating a ***Regulatory Review Committee*** with senior management participation. For larger organization we recommend creating the Chief Regulatory Officer as a dedicated role allowing focus and sufficient availability.
- Create a regulatory review network in the organization, identifying additional key people involved in global regulatory review (subject matter experts) at senior level and below. Add regulatory review to mandate descriptions and objectives set for certain function types such as product managers. Knowledge and experience are key to assess regulatory change so make sure your regulatory network has enough seniority.
- Establish quarterly senior management ***regulatory reporting*** with respect to regulatory evolution summarizing the regulatory environment in the ***global regulatory plan*** and providing regulation by ***regulation score-cards*** (see below).
- Establish a ***global regulatory plan*** including a strategic vision assessing combined effects of outstanding and upcoming regulations. Use 1 scorecard summarizing all individual regulatory scorecards (see below). Add multiple perspectives to the global regulatory plan: what will be combined effect from client perspective, from investor perspective, from an internal perspective (e.g. combining requirements coming from various regulations into 1 action),...
- Use the ***regulatory reporting and global regulatory plan consistently in your strategic thinking and business plan processes.***
- Integrate the budget estimations and other relevant impact assessment elements with respect to regulations ***consistently*** in all relevant management systems from the early stages.
- Have you regulatory reporting and plan ***checked and challenged*** by external parties and industry partners. You are never alone in having to comply with new regulations. Use the external sources as much as possible to gather information, challenge your views and assumptions. External consultants can help you especially in the early stages of the regulatory process, climbing the learning curve, getting a top-down view. Your clients, competitors and partners can help you in create a clear view on the regulatory topic.

Reaching out to them in the early stages will contribute highly to your analysis and subsequent change management.

- ***Align your regulatory governance and internal regulatory process as much as possible to the regulatory process of policymakers***, outlining typical project paths/actions/checklists in the various stages of the regulatory project. A high level process alignment is depicted below.

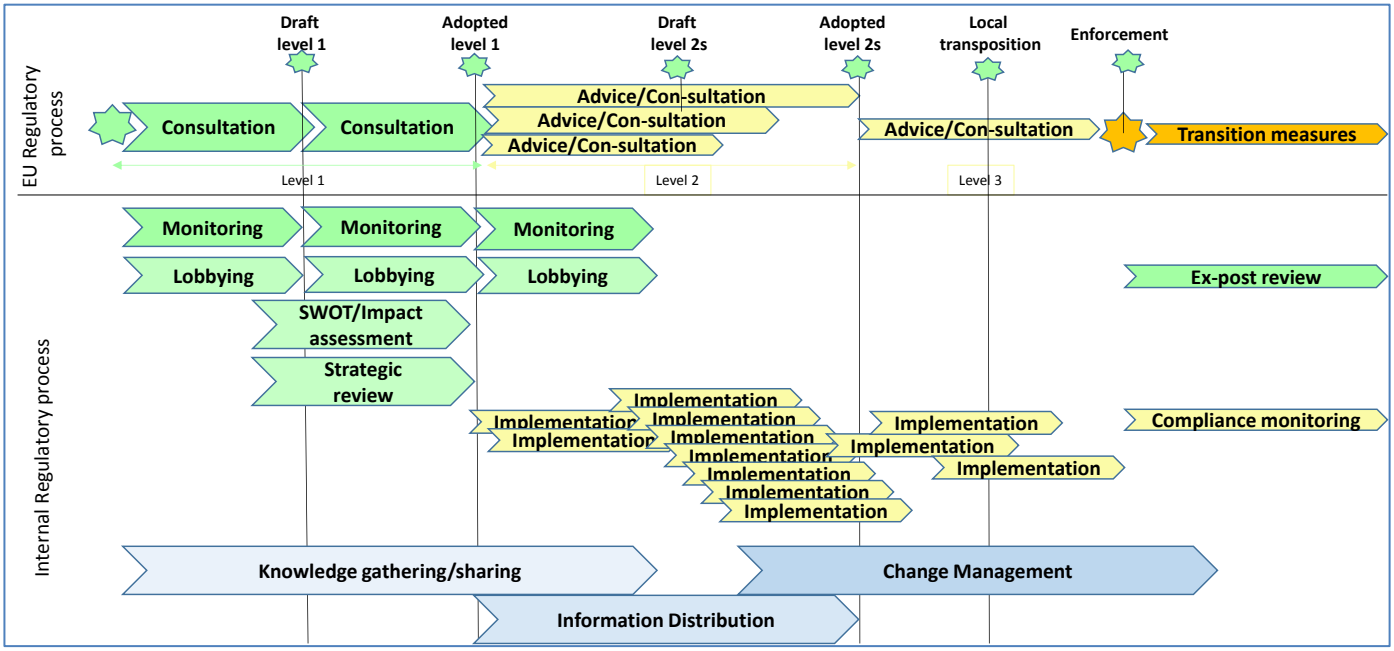


Figure 5: Macro view internal regulatory governance aligned to external regulatory process

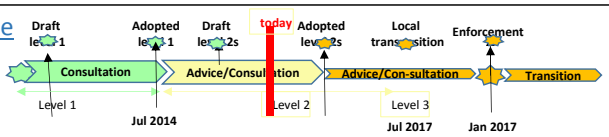
- Provide guidelines on ***knowledge management*** in your regulatory governance. Knowledge acquisition and distribution is a key success factor, specifically at the early stages. Put in place a ***knowledge management/distribution plan*** with respect to the individual regulations.

Regulatory project guidelines

- Establish ***an impact assessment report*** as first deliverable from the moment the new regulation is identified, updated frequently until moving the regulatory initiative to implementing mode. Such impact assessment report should typically include
    - Exhaustive ***list of impacted domains***:
        - Geographies/regions
        - Types of financial institutions impacted globally
        - List of legal entities in the financial institutions group impacted
        - Type of clients impacts
        - Types of product/services impacted
        - List of departments impact
        - List of IT systems impacted
        - List of procedures impacts
        - Parts of organizational structure
        - List of external third parties impacted and how they will impact you
    - List of ***key figures/KPI impacted*** (quantitative, projected over coming years):
        - Financial P&L, ROE, OER, ROA, capital/liquidity ratios, etc.
        - client/commercial
        - operational
        - risk/control
        - …
    - Qualitative ***assessment of strategic alignment*** of the new regulation: changes in business model, does the regulation goes against the current strategic vision and projections, etc.
    - Use these estimated quants consistently in other relevant internal management reporting (e.g. overall budgeting, capacity planning, etc.).
    - Use external sources as input for the impact analysis. The most valuable source is probably the impact assessment that is initiated by the policymakers himself or impact assessments done by industry associations. Use the quants in these external assessments as benchmarks for your own assessment.
- Establish ***an action plan*** as 2nd deliverable right after establishing the first impact assessment, updated frequently until moving the regulatory initiative to implementing mode.
    - Define ***clear ownership*** for each of the actions and timelines where possible
    - Consider ***distinguishing an IT action and a non-IT action plan***
    - Clearly align and ***balance group and local entities responsibilities*** in dealing with regulation within international financial institutions. Look at the nature of the regulation, the businesses it impacts and the variety of such businesses within the group in order to decide how to implement the new regulation. For instance, if it is a regulation with a lot of impact on client interaction in specific local market contexts, having a strong centralized group approach may not be the ideal way to go.
    - Use as much as possible ***standardized actions*** elements in line with external regulatory process and based on the impact assessment (defined typical project in overall regulatory review process). For instance:
        - Lobby against regulatory elements that would harm you

- Embrace and consider early adoption of regulatory elements in line with strategy
- Identify knowledge gathering/distribution as action
- …

- Establish a ***regulatory scorecard*** from the moment the upcoming regulation is identified keep the scorecard up to date. Scorecard could typically including following elements:
  - Ownership of the regulation
  - Description of the regulation in term of purpose, context , etc. as outlined by policymaker
  - Indication of regulatory process of the policymaker with timelines
  - Summary impact assessment
  - Summary action plan
  - Overview of external opinions/view, competitive analysis

Regulation: Example scorecard PRIIPS	Timeline 		Owner: Mr. Smith Project Stage/RAG internal: Implementation

Summary Scope Description:
• Aimed at increasing investor protection and transparancy by obliging product distributors to provide pre-trade a Key Information document (KID) to retail investors drawn up by **product manufacturer for certain product types** according to strict guidelines on how to show risk/performance, updated at least annually or whenever event occurs that significantly impacts information provided in KID
• Wide product range included. UCITS funds granted 5y exemption.
		Summary Scope Typologie:
		• Client Type: Retail
		• Service/business type: all
		• Georgraphies/entities: EU
		• Product scope:
		  • In: derivatives, structured products, funds, insurance savings products
		  • Out: direct investement bonds/equities, deposits, …
			○ Strategic review
			● Impact assessment
			● Implementation plan
			○ External review
			○ Post review

Impact Assessement Qual • Strategy/business model • Commercial process • Product development • Product distribution • Processing, operating model • Risk • Compliance • Finance/Accounting • Fiscal	Impact Assessement Quant • NBI: NA • Cost one off: 3mio€ • Cost ongoing: +0,2% • Capital ratio: NA • Liquidity ratio: NA • …	External view/actions • Competitor actions/readiness: …. • Industry view: ……	Key Issues and Risk • KID update frequency • KID pre-trade availability • KID pre-trade distritbution frequency • Alignment to/interference with MIFID2 • UCITS 5y exemption
	Knowledge actions	Implementation actions	Key Next steps

Figure 6: Sample regulatory scorecard

- Focus on knowledge gathering and distribution in the early stages of the regulatory process.
  - ***Create one master information document*** with respect to the new regulation, summarizing in top-down way the scope of the regulation and referring to other documents for detail.
  - Participate as much as possible in the consultations that the policymakers put in place and follow-up on how peers participate in this process. The consultation process is a very valuable source of information on the new regulations and a means to interact with other interested parties.
  - Collect useful information/document with respect to the regulation coming from policymakers, consultants, competitors,… make an internal summary with references.

    - Assess the information gathered in terms of maturity, making a clear distinction between open issues and certainties. Have some focus on open issues.
- Apply ***agile project methodology***, focusing on the 'knows', and not spending effort and losing time on the known unknowns.
    - Combined use of the summary information document and IT plan should allow you to breakdown the IT scope in separately manageable parts with a clear deliveries.
    - Your summary information document with references to detail should be easily transformable into business requirement documents allowing IT to establish technical specifications.
    - Make assumptions only when really required from timing perspective. List assumptions and open issues to deal with them quickly.
- Establish a ***change management plan***
    - focusing on knowledge sharing at first moving to training
    - use multiple channels:
    - gradually increase number of people involved
    - using networking techniques, first engaging ambassadors of change
- Constantly monitor the ***external view on the new regulation***
    - Have you internal plans ***at least once reviewed by an external party*** to ensure you have well understood.
    - Engage with external parties to discuss as much as possible your understanding of the new regulations and how you intent to deal with it. Look at how they do it
    - Pay specific attention to your competitors.
- Post-review your regulatory project to get a positive learning effect in regulatory governance. A regulatory project does not end at enforcement date, as a matter of fact, it just enters into a new phase during which further management attention is required

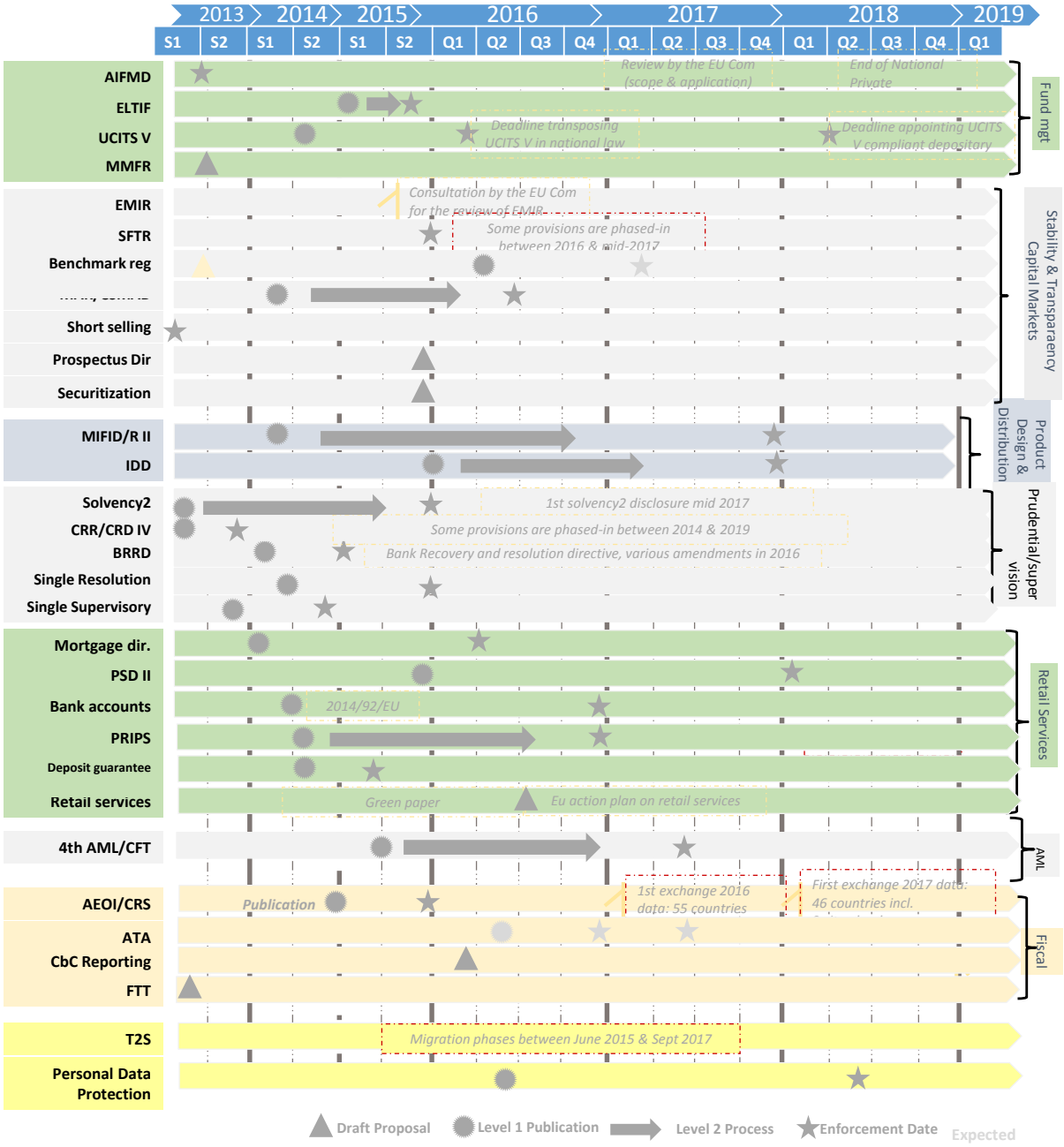
Indeed, there list of guidelines is long and although some of them seem obvious, they are not that often and not consistently applied simply by lack of governance and process or because of lack of resources. The latter is maybe the last but not least element to add: make sure you have the right people working the regulatory change as well in the overview function as in the regulatory change projects, people who have the capacity to understand scope, nature and complexity of the regulation and at the same time have a 'can do' mentality…

How can Initio help you manage regulatory change adequately?

As a consultant specialized in financial services, Initio can offer its clients added value in applying its knowledge and experience in regulatory governance and financial services regulations to:

- Create and/or review your regulatory governance tailor-made taking into account size and type of your business and your current organizational arrangements and strategic vision.
- Help monitoring the regulatory changes providing you key summary information and alerts. Assist in knowledge management and knowledge distribution on regulatory matters in your organization.
- Help you perform impact assessments on upcoming specific regulation or your regulatory context in general using our knowledge base.
- Manage your regulatory implementation projects applying the agile methodology.

Annex 1: overview of EU regulation



About Initio

Initio is a business consultancy firm specialized in the Financial Industry.
Every day, our consultants contribute to the successful delivery of business projects by transferring their expertise to our client's management and internal teams.

Initio operates in the financial sector, servicing a wide range of clients. Our offering is focused on business consultancy combined with project methodology in order to assist our clients on the whole project cycle.

We have offices in Brussels, Luxembourg & Geneva. Through close collaboration, we can react swiftly on a wide scope of services in order to meet client needs rapidly with the highest industry standards.

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