Partnering is key to regulatory compliance in 2023

After a period of international coordination following the financial crisis, regulators are once again defining their own agendas and increasing the diversity of rules across markets. According to David Petiteville, Director of Regulatory Solutions, Product, partnering with financial industry stakeholders will be key to preparing for market changes and new rules this year.

David Petiteville
Director of Regulatory Solutions, RBC Investor & Treasury Services

As markets move beyond the 2008 crisis, regulatory paths may diverge

Asset managers are facing a growing diversity of regulatory focus between markets. "As we move out of the 2008 crisis, markets are trying to be competitive again, and are focused on what may attract capital to their area, while at the same time continuing to protect investors and have a solid market infrastructure," said Petiteville. "That's where the shift is."

In Europe, safety is an argument for attracting capital. At the same time, the US has created a more accommodating regulatory environment, and since Brexit, the UK is trying to strike a balance between the two approaches," according to Petiteville.

New regulatory initiatives coincide with changes to financial markets infrastructure

"There will be disruptions in 2023," said Petiteville. He cited the new Swift messaging standard for financial data, the adoption of T+1 settlement for most security trades in Canada and the US, and an update of the European Market Infrastructure Regulation (EMIR) as elements that will require the time and attention of financial institutions. "In the US and Canada, significant resources will be assigned to the implementation of T+1, leaving fewer resources to focus on other initiatives."

Scrutiny of environmental, social and governance (ESG) reporting is growing

Regulators are learning from their reviews of sustainability reporting and are starting to publish regulations and even fine companies in situations of identified greenwashing. The focus on greenwashing means asset managers need to ensure their disclosure fairly represents their sustainability and ESG strategy.

Some asset managers have backtracked on green claims

"The net is tightening," said Petiteville. He noted some asset managers have backtracked on green claims and may return with ESG labelled products once the rules have become clearer and are in place for a longer time.

"We're currently seeing managers paying close attention and fine-tuning their approach." Though Europe has been a leader in proposing ESG regulations, implementation is usually slowed by the need to translate directives into country-level legislation. The UK may be later to publish rules around sustainability, but faster to implement, Petiteville said.

Asset managers should prepare for new regulation around crypto assets

"Following the recent FTX collapse, regulators have begun to introduce new crypto regulations," said Petiteville.

US regulation may focus on a healthy, functioning market by expanding custody rules and reporting transparency

"Europe has taken the lead with the European Union's Markets in Crypto Assets (MiCA) regulation proposal, but now the US is moving very quickly to put rules in place." US regulation may focus on a healthy, functioning market, by expanding custody rules and reporting transparency, while Europe is expected to emphasise investor protection, including by regulating crypto as highest-risk assets. Some markets will follow Europe, others may seek to attract crypto activities by applying lower risk weightings, said Petiteville.

Regulatory compliance will require partnering within the financial industry

"The theme for 2023 will clearly be partnering," said Petiteville. "We don't see regulation affecting only a single corporate or institution, it's usually impacting the global value chain. Without collaboration, managers won't be able to implement regulations."

Asset managers are also preparing for a "huge move" to digitisation resulting from the new Swift messaging standard and the increased need for data exchange between stakeholders, according to Petiteville. Industry associations are working on publishing standards for data sharing, "because the regulation, in a lot of case, says what you have to do, but not how you have to do it."

The volume of regulation may mean higher implementation costs

While large asset managers have sufficient resources to deal with regulation, smaller ones may have to rely on third-party services in areas such as corporate action reporting and ESG. "FinTech in our industry has grown a lot, but it comes at a cost. Managers will need the most cost-effective strategies to achieve the new requirements," said Petiteville.

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Several regulatory initiatives in 2023 will require the expertise of the same people and teams. "These highly complex and technical projects require the involvement of people with specific expertise," says Petiteville. This will drive competition for regulatory experts and may result in increased hiring costs.

Asset managers should still expect alignment in some areas, particularly in ESG, with the International Sustainability Standards Board (ISSB) aiming to publish sustainability and climate disclosure standards in 2023. "Everybody's looking for that, so we can expect some convergence in those topics," said Petiteville.

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