RT Forum

The RegTech Forum presents:

Rebuilding Trust in Financial Markets

May 2017 – **London**

Contributions from:

kx | BARCLAYS | accenture | EMRiLs | iDPal | PRIVITAR

Welcome to the RegTech Forum

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Welcome to the RegTech Forum, a vibrant community of regulators, regulated firms and their technology and service providers. Facilitating discussion, collaboration and insight on the challenges and opportunities within RegTech – and ultimately a marketplace to do business.

Our May event, hosted on the 30th floor of Barclays' Investment & Wealth Banking building in Canary Wharf, was a testament to how far we've come since we founded the RegTech Forum in January. May also marks the launch of our international programme – we were delighted to welcome new community members to our Paris event on 22nd May – with another European event hosted in Zurich on 22nd June, our London summer social on 6th June, and the final event of our spring/summer series in London on the 27th June. Busy days indeed!

As well as expanding across the world, the RegTech Forum itself has grown and evolved into three distinct verticals. Complementing our established thought leadership events, we now provide advisory and business development for community members and their early stage RegTech firms. We are also planning a series of RegTech Showcase events, to provide selected RegTech companies with the opportunity to pitch, present and demonstrate their offerings to a curated audience of Financial Institutions. We will be releasing more information on these and other developments over the coming weeks and months.

This momentum and the traction the RegTech Forum is gathering would not have been possible without the support of our contributors, sponsors and attendees – thank you.

Videos, interviews and white papers from all our events are available at **regtechforum.co**. Please register at **regtechforum.co/register** to join our thriving community, receive updates, and early access to thought leadership assets like this white paper report. We look forward to welcoming you to our next event.

Executive Summary

Vincent Kelly

Head of Editorial
ditto

RegTech offerings address practical and tangible problems: enabling regulatory compliance, reducing the different categories of business risks, improving cost efficiency and driving transparency between financial institutions and their clients.

All of these solutions and technologies are fundamentally aimed at rebuilding trust in financial markets. They enable regulated firms to trust that their employees are adhering to best practice; help Regulators trust that customers are being treated fairly; and ensure that Governments and the public can trust the markets – that the risk of systemic collapse is being kept to a minimum.

This white paper – complementing the recent RegTech Forum May event – examines the theme of Rebuilding Trust in Financial Markets. Our speakers – industry experts from across the markets – discuss the progress that has been made so far and identify the areas where work still needs to be done.

We will soon be publishing another RegTech Forum report focusing on Identity and Privacy – two fundamental and underpinning aspects of the trust being redeveloped in financial markets.

I look forward to meeting and discussing these ideas with you at our next event.

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Kx: Kx's singular goal is to provide its customers with the most efficient and flexible tools for ultra-high-speed processing of real-time, streaming and historical data.

Barclays: Barclays Investment Bank provides large corporate, government and institutional clients with a full spectrum of strategic advisory, financing and risk management solutions.

Accenture: Global management consulting and professional services company which provides strategy, consulting, digital, technology and operations services.

EMRiLs Ltd: EMRiLS Ltd provide legal solutions to business problems and mitigate legal risk – with good process and effective use of technology reducing the time lawyers spend on non-core tasks.

ID-Pal: ID-Pal addresses the paper-based, time consuming and frustrating process of customer onboarding. We enable businesses to verify the identity of their clients quickly and easily by providing a simple, secure and convenient Know Your Customer (KYC) solution.

Privitar: Privitar is a leading privacy engineering company, enabling organisations to use, share and derive insights from data safely.

Pat Brazel

Chief Revenue Officer
Kx

> ***Complying with regulations is an opportunity, not an obligation*** *– and will go a long way towards rebuilding trust in financial markets*

Following the Spirit of the Law

At Kx we believe there is a collective responsibility across the capital markets to rebuild trust. The market cannot view regulations like the Markets for Financial Instruments Directive (MiFID II), Securities Financing Transactions Regulation (SFTR), and General Data Protection Regulation (GDPR) as the cost of doing business. Firms who embrace the new paradigm will have a material advantage over competitors –we're seeing this across the Sell and the Buy-side, particularly in relation to MiFID II.

Understanding the spirit of these rules as well as the letter is key: why is transparency, and demonstrating that internal policies are clearly available, important? This is a real opportunity – not an obligation.

Linking Siloes Together

The capital markets are siloed by nature, both from a business perspective and the supporting technology. This makes regulatory compliance a very, very big data challenge, and the 'winners' will be those who overcome it: using the required integration and transparency to drive new business opportunities, develop new products and generate alpha.

Moving Towards Real Time

The ability to monitor all aspects of the trade lifecycle and replay events as they occur will enable participants to report and manage much more effectively. It will require the acquisition, storage and mining of data within the enterprise, and will become increasingly real-time as the regulatory environment evolves.

Cross-asset class analysis and monitoring of market abuse and/or manipulation will become more sophisticated and real-time – and will not be limited to participants. Regulators must demonstrate that they can review all of the reports they receive, so they can act. This will play a vital role in improving the capital markets' reputation: when the regulators prove that they are "reading pupils' homework."

Responding with Flexibility

Changes to regulations will need to be managed. Platforms and vendor systems must be flexible enough to support these changes, and to respond to updated parameters as markets move. Independent benchmarking is critical to ensure accurate reporting on pre- and post-trade executions – which is why we have partnered with Thomson Reuters to ensure that our platform meets this need.

Integration, ongoing operations, investigations, analysis and reporting will all need a high-performance data management platform like Kx Technology, which enables firms to apply structured processing to an unstructured landscape; make sense of this content; and do it quickly and efficiently.

Capturing Opportunity

To comply with regulations and leverage the new rules to generate opportunity, firms will have to demonstrate their compliance: capturing all the data and be able to benchmark it. They will need to be able to monitor all aspects of trade lifecycles, capturing all orders, quotes and executions to drive SI status, which will drive reporting obligations.

They must use real-time monitoring to test algorithms, look for market abuse in all its guises, and to cover all markets. They must be able to respond to regulatory change through a flexible and extensible IT infrastructure – which is robust enough to ensure the shortest time to market. Finally, they must take an active role in understanding the regulatory requirements they face – or seek advice from experts to ensure a clear understanding runs throughout the organisation, helping them stay ahead not only of the requirements today, but what's coming down the line.

Panel Insights

Contributors

Peter Moylan
Head of European Software Revenue
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Jamie Woodhouse
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James O'Toole
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Jim Baird
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Denisse Rudich
Regulatory and Policy Expert

How do we go about rebuilding trust in financial markets? We asked our panel of industry experts for their views on the challenges and opportunities facing regulated firms.

Does Reviewing Historic Breaches Give a Valuable Perspective Into Developing Future Solutions?

RegTech solutions exist to rebuild trust in the financial markets – so regulators, market participants and their customers can all have confidence that trades are being executed efficiently, clients are being treated fairly, and that the systemic risk to the market is kept as low as possible. But where should RegTech firms look for inspiration and insight as they build out their solutions: back at past breaches – or looking ahead to define a compliant, balanced and fair market future-state?

*If you only look at historic events, **you are radically underestimating the potential impact in the future***

Our panel agreed unanimously that there is value in learning from the past. Peter Moylan, Kx's Head of European Software Revenue, said that "being able to replay a market, see how the participants operated, identify abuse and then track that, is a critical part of stopping these processes from happening in the future."

When looking at broader trends, history can also help predict the future to a degree. Referring to some of the technology innovations and business challenges that lie ahead, Jason du Preez, CEO at Privitar, explained, "The clearest message from examining breaches is that they are becoming increasingly sophisticated. Responses therefore need to be equally sophisticated. Perimeter security is fallible and so businesses should prepare for the inevitable breach."

However, the panel also agreed that reviewing the past needs to occur in parallel with planning for the future. According to Jamie Woodhouse, Managing Director, Accenture Finance & Risk, "the market and regulatory environment – and level of censure – can change dramatically over time. With GDPR, for example, fines could jump up two orders of magnitude from where they are today. So if you're only looking historically, you're radically underestimating the potential impact in the future."

James O'Toole, CEO at ID-Pal suggested a third option, beyond looking forward or backward. "We started off by asking, 'what are the outcomes that this regulation is trying to achieve' – how can we work backwards from that using the best combination of technology, process and people to deliver those outcomes?" Focusing on the spirit, as well as the letter, of regulation enables RegTech firms to develop offerings that avoid the dual risks of being a 'solution looking for a problem', or 'closing the stable door after the horse has bolted.'

Panel Insights

Is Greater Accountability Restoring Market Confidence?

As Peter Moylan pointed out, "recent scandals on Libor, on FX fixing, on benchmarking, have all worked to undermine the credibility of the financial services industry." In response to this, there has been a shift towards greater accountability across the capital markets – but is it having an impact?

Regulatory and Policy expert Denisse Rudich thinks it is. "Initiatives like the Senior Managers Regime, and issuing fines against individuals to enforce personal liability, are aimed at incentivising improvements in behavior. You can see directors are taking this more seriously – they generally refer to principles of good governance and upholding the rule of law in areas like Anti-Money Laundering (AML), Anti-Bribery & Corruption (ABC), sanctions and Counter-terrorism Finance (CTF), whereas 5 or 10 years ago that would have been dealt with by the Compliance Department."

Jim Baird, CEO of EMRiLS Ltd, made an interesting comparison between the culture in capital markets, and the airline industry. "They've managed to develop this safety culture, where people are intuitively, instinctively and automatically open about problems – when something goes wrong it's just reported, because looking after their passengers comes first. We've got to find a similar balance, because that customer-centric, risk adjusted, safety-first culture will ultimately have a deeper and more profound impact than any amount of censure and punishment."

Focussing on GDPR, Jason du Preez commented that the incoming data privacy regulation "will have a huge impact as it will push all organisations to meet a set of minimum standards. Beyond that, we expect to see privacy increasing as a competitive differentiator as customers seek out organisations which adopt privacy protecting business models."

***No bank wants to be in the headlines** for any kind of fraudulent or compliance-related activity*

Are Poor Reputations Impacting Revenues?

While the threat of fines and penalties being levied against an institution is certainly enough to grasp participants' attention, is there another factor in firms' commitment to compliance: the business impact of having a poor reputation on either side of the street?

As James O'Toole put it, "No bank wants to be in the headlines for any kind of fraudulent or compliance-related activity. It's obviously not going to be well received in the market, and from the public perspective it will simply add to the perception of more 'dodgy dealing' in the market."

*Directors are taking good governance more seriously – **responding to initiatives like the Senior Managers Regime***

Peter Moylan agrees: "I'm sure that somewhere there's a hierarchy of the most trusted firms to do business with. MiFID II, Trade Surveillance, the 1st, 2nd and 3rd lines of defence – these are seen as the cost of doing business rather than a differentiator. I think that may start to drive prople to take this seriously from a Sales and Marketing perspective: how the Buy-side perceives the Sell-side, will they get best price, Best Execution – these are all significant factors, and maintaining a reputation for excellence will no doubt play a part."

Compensation: A Route to Improved Compliance?

While the average 'man on the street' may still perceive compensation in financial services as being at pre-recession levels, there has been a clear and wide-ranging move to reign in remuneration – and to specifically tie rewards and bonuses to long-term profitability. Is this having an impact on behaviour and rebuilding trust?

For Jamie Woodhouse, it's a positive development that will have a real impact. "I think it's a healthy step to link personal compensation to long-term outcomes and results, which arguably should show a better balance of risk versus reward."

Denisse Rudich agrees. "Adding 'claw back' provisions and 'performance adjustment/forfeiture' clauses to employee contacts to ensure they can recoup bonuses based on realised risks, or not pay them out due to poor conduct is, on the face of things, having an impact. Additionally, linking successful completion of compliance training to remuneration and having senior management promote a culture of compliance are key."

However, culture in financial institutions are not going to be refreshed overnight. As Jim Baird explained, "it will take time for these changes to really start having an effect. It will need people rising up through the ranks with this new perspective, and get to senior levels. Then I think we'll start seeing a more transformational effect – but I can see today it is already having an incremental effect."

Given the rapid pace of regulation and technology innovation, ***I suspect there are large mismatches in understanding of what is required, and what is possible***

Is Regulation Driving A Cleaner Bill of Health?

'The increased pace of regulatory change' has become a permanent fixture and oft-repeated mantra across the financial services and RegTech industries. But has the accelerated programme of regulation impacted the market – and is it working to restore credibility within the industry?

Jamie Woodhouse argued that the impact has been positive, and a lot of progress has been made. "I think the banks in general are better capitalised, the shift towards long-term incentive structures is encouraging better behavior, we've made progress on individual accountability, and in the conduct risk space many banks and insurers have driven genuine cultural shifts to avoid future mis-selling."

Jamie went on to say that vigilance is still required, however, and Jason du Preez agrees. "Protection against previous crises doesn't mean that we're better prepared to deal with new, different, future threats. Organisations need to start thinking not just about preventing access to sensitive data, but ensuring that the impact of a breach is neutralised."

Ultimately, that vigilance and commitment to best practice is in the markets' and institutions' best interests. As Denisse Rudich explained, "I think that corporations like to put their funds in countries and enterprises that promote transparency and good governance – where they know that their cash and investments are protected to a certain extent."

How Do RegTechs And Their Clients Stay Ahead?

RegTech firms, institutions and regulators are all working to rebuild the trust, credibility and integrity of the participants, products and processes underpinning the financial markets. But what options are there to stay ahead of the 'non-compliant innovation curve'?

For James O'Toole, the answer is to keep investing and deepening that collaboration. "Given the rapid pace of regulation and technology innovation, I suspect that there are large mismatches in understanding of what's required, and what's possible. It comes down to bringing together all the key stakeholders – and having the regulator at the heart of that conversation – to have a continuous dialogue that keeps everyone up to speed."

Regulators need to prove that they can - and are - reviewing all the reports they receive – ***that will play a vital role in improving the reputation of the capital markets and rebuilding trust***

For Jason du Preez, however, legislators must demonstrate they can keep pace. "More agile legislative instruments, such as the codes of conduct and certification mechanisms laid out in GDPR, might allow for a more iterative approach – so regulators can keep their guidance in line with fast developing best practice."

Peter Moylan agreed, arguing that the huge amounts of reporting and regulatory-related data that regulators are receiving present a significant processing challenge. "For them to act, they have to be able to review all the reports they receive. This will play a vital role in improving the capital markets' reputation and rebuilding trust: when the regulators prove that they can – and are – reading pupils' homework."

Panel Insights

In summary, the three key insights to take away on Rebuilding Trust in Financial Markets:

1. Lessons from historic regulatory breaches, as well as the ability to 'replay' market conditions, give valuable perspective into future solutions – but must be combined with an eye to innovation and the future.
2. Initiatives aimed at rebuilding confidence and trust in capital markets, such as MiFID II, GDPR, the Senior Managers Regime, AML, ABC, CTF and sanctions, are being taken more seriously by Directors
3. The increased pace and scope of regulatory change is having a positive impact on rebuilding trust across the market, but participants will need to remain vigilant against threats and risks that lie beyond the horizon, as the markets continue to evolve and technology increases in sophistication.

*Protection against previous crises doesnt mean we are better prepared for future threats – **there are significant risks which could threaten individual customers and damage the world financial system***

The RegTech Forum events and community will continue to grow, mature and build meaningful connections between innovators, entrepreneurs and venture capitalists in the space. To attend or to contribute towards the next event, please register your interest at www.regtechforum.co