

Wave of regulations have altered competitive dynamics and business models

DERVLA MCCORMACK looks at the implications of new regulations from the US, Europe and Asia for competition and business models in the fund industry

It is easy to take the view that the different regulations being imposed on the asset management industry are just a matter for compliance. After all, this has always been the case

before. Yet the wave of regulations coming from the US, Europe and Asia are fundamental to the sector's future growth prospects and profitability.

The new rules affect everything from products and services, to business models and cost structures. They alter the competitive dynamics within parts of the industry, creating opportunities for some and difficulties for others. At the same time, they have an impact on cost bases, which needs to be managed as efficiently as possible.



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For these reasons, regulation has the potential to radically alter the fortunes of asset managers and their service providers – for better or worse. So detailed are the compliance requirements, and so far-reaching are their effects, that holistic responses encompassing as many new regulations as possible at once are the most effective. In this way, you can plan the right strategic response, minimise the cost of compliance and strengthen your competitive positions – although realistically, regulations’ different implementation timetables might prevent perfect solutions.

New regulations contain widespread commonalities, as well as contradictions. From the US, the new FATCA and Dodd-Frank reforms will affect the industry globally. Europe’s AIFMD regulations will, similarly, have an impact beyond the borders of the EU. And then there are the

new rules within Asian markets such as China, Hong Kong and Singapore.

From an operational perspective, almost all of the new regulations require more reporting. This means you have to collect more data and generate more reports. To comply, asset management administrators will have to modify their information technology systems – they will do so most effectively by taking into account all of the different regulations at once.

For example, AIFMD, FATCA and UCITS IV all have distinct reporting requirements, with different deadlines for implementation. Yet, organisations will find operational synergies if they look at producing the new information in a joined-up way. Doing so will allow you to modify your reporting systems to comply with the respective requests in a coordinated manner that will minimise costs.

From a strategic perspective, the impacts of new regulations are considerable. Some organisations will find opportunities to offer new products and services. But others might find that liquidity requirements, new liabilities and increased regulatory costs mean they no longer have the scale to operate cost-effectively. As a result, you might choose to acquire businesses to gain entry to new markets, or to sell operations no longer able to achieve profitable growth.

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With the biggest volume of new regulations falling on Europe, this is where the strategic implications are greatest. Notably, the AIFM and UCITS IV Directives remove some of the remaining barriers to a single EU market for investment products, presenting an opportunity both to sell funds across Member States and to centralise

operations. But the Directives also force extra costs and liquidity requirements on some.

For the asset servicing organisations, the new regulations will force some hard choices. Positively, the EU’s new Directives present opportunities to offer new reporting services, and might even result in a new generation of outsourcing

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solutions. Furthermore, they bring potential for increasing the efficiency of organisational structures. Yet the Directives also considerably increase liabilities and costs. This might well hand an advantage to the large organisations, which can assimilate these costs by becoming more efficient.

Making the right decisions about how to comply with the new regulations in an efficient, cost-effective and opportunistic way means you will have to look into the effects on your entire business. We recommend the following four-step approach:

1. Map the reform agenda
2. Identify impacts and change required
3. Identify opportunities and threats
4. Create an implementation plan.

Just as the new rules are complex, so too are the factors that you must take into account when deciding on your future path of action. Regulation, accounting, strategy, tax, programme management, people and M&A are all relevant. Only by tackling all the regulatory challenges in a coordinated way can you be sure of plotting the best path through the challenges and opportunities.

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