BLOG

Navigating the Challenge of Specialist Staffing Amid a Deluge of Regulatory Changes

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Nearly eight years after the global financial crisis of 2008-09, financial institutions continue to face regulatory aftershocks. A spate of regulations have been – and continue to be – unveiled in the US, the UK, Europe, Switzerland, Singapore, and in every major financial center to tighten the monitoring of market, credit, liquidity, and operational risks.

While the main focus of these regulatory changes has been on OTC derivatives with greater efforts to increase transparency, disclosure, modeling, and stress testing under more extreme scenarios, the full ambit of changes has touched every asset class and has ramifications for every financial institution on the sell side, the buy side, commercial banks, insurance companies, and other financial companies.

As such, CROs are looking at huge staffing challenges as they scramble to address the regulatory risk modeling and reporting challenges within stipulated timelines, and financial institutions are grappling with the inevitable increase in the cost of doing business.

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This deluge of changes is compounded by the fact that many of these changes and deadlines for compliances are clustered together – all taking effect within a matter of years of each other.

Moreover, many of the proposed changes touch the fundamentals of existing risk models and control processes. The forthcoming Standardized Approach for measuring Counterparty Credit Risk (SA CCR due January 2017) requires a new generation of Monte Carlo models. Similarly, the Fundamental Review of the Trading Book (FRTB due January 2018) requires replacement of VaR by Expected Shortfall measures to capture 'tail risk'. As though this was not enough, US authorities have deemed that large non-US-incorporated banks could also have systemic risk ramifications and hence should be subject to CCAR. On the buy side, a slew of regulations –EMIR, Mifid II, PRIIPs, and IOSCO – will challenge the risk domain and specialist staffing capabilities of all buy-side firms.

Clifford Chance estimates that USD800bn of collateral will be needed to meet Dodd Frank and EMIR requirements, and Morgan Stanley research indicates that 3 percentage points in ROE will be adversely impacted by regulatory compliance costs. E&Y states that 50-60% of the costs will be on account of data acquisition alone to meet the new regulations.

All considered, the costs of compliance with the new regulations are considerable, and this will increase with each passing year. The staffing models to deal with this can no longer be an extrapolation of existing practices; instead it will require transformational staffing solutions that can provide flexibility in specialist bandwidth to help bridge deadline staffing gaps. These competitive staffing solutions will require outsourcing – offshore, near-shore, and onsite – to reliable specialist third-party vendors. The optimal outsourcing solution is often a mix of risk management products, subject matter expertise, and access to global talent pools. In many ways, we are uniquely positioned to provide relevant risk-domain resources to help scale up client teams and leverage off the thought leadership and risk management products of our parent Acuity Knowledge Partners subject matter experts, who are at the forefront of this evolving set of risk regulations globally.

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