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Who is the Regulator?

Firms are increasingly coming under the authority of multiple regulators at home and abroad. That is creating challenges for those responsible for managing regulatory risk.

We've come a long way since the 1970s, when financial services industries across the globe were largely self-governing. Public pressure for greater accountability, transparency and trust has seen a proliferation of regulators and former industry bodies consolidating into government agencies. In the UK, for instance, the Financial Services Authority (now the Financial Conduct Authority) incorporated the IMRO (Investment Management Regulatory Organisation), SFA (Securities and Futures Authority) and PIA (Personal Investment Authority), as well as sections of the Bank of England.

This boom in state-sponsored regulation has coincided with enhanced cross-jurisdictional and regulatory collaboration, as well as high fines for regulatory failings.

Firms now find themselves subject to penalties and sanctions from multiple regulators and law enforcement agencies for a single breach, with fines based on various, and often unclear, criteria. One international bank in 2012, for example, paid $340 million to the New York State Department of Financial Services – a relatively new regulator in New York – and a day later $327 million to the Federal Reserve. The same year saw U.S. authorities impose large fines on not only U.S. based firms but also UK institutions.

With great power comes great responsibility

This is, in part, why it's no surprise our survey shows nine out of ten in financial firms expect the cost of compliance to rise. But at some point that means we must question whether the industry and shareholders – and the wider public who ultimately pays – can continue to bear the burden of increasing regulation.

Brexit may allow for UK regulators to rethink and slim down the UK regulatory landscape, particularly for institutional businesses. The same possibility can be seen in the U.S., where President Trump has already stated he believes that Dodd-Frank went too far and delayed economic recovery.

In the meantime, the utopia of a single global regulator is unlikely ever to be more than a dream, but regulators can continue to work across agencies and with firms to ensure the industry remains competitive, while still safeguarding against failures in the markets they oversee. And as regulatory change and political and economic upheaval continue, firms, too, should be ready. They need to be putting in place a global regulatory recovery plan to protect themselves from – or capitalise on – the changing regulatory landscape.