Can You Teach an Old Dog a New Trick?

This question is fundamental in so many areas of life and business. When faced with the decision to change direction in favor of something new or continue with what has provided support for years, we are asking ourselves that fundamental question. The simple answer is - yes, we can teach an old dog a new trick. The question that remains is, at what cost?

More often than not and particularly with technology, we tend to opt to extend the life of an existing system or platform in favor of upgrading to something new. Before you know it, it has been several years of maintaining and extending a system that outlived its true usefulness years earlier. It's not until forces, usually outside of our control, that demand we take action.

Recently, we have seen an increase of firms that have outgrown their proprietary compliance solutions particularly in the area of substantial shareholding disclosures. These systems address the reporting obligations that firms have as it pertains to their holdings of securities in a given country. Every country has its rules and regulations on how and when to report these holdings. So why now, why have these systems outlived their true usefulness?

There are several factors that come to the surface:

- regulatory changes
- corporate downsizing
- availability of data
- advancement of third party capabilities

Since the financial crisis, regulatory agencies have introduced a tsunami of regulatory changes. Comprehensive changes aimed at all segments of the financial industry, including hedge funds. Across the US, UK and EU, introduction of regulations like Dodd-Frank, EMIR, and AIFMD are putting pressure on firms around the globe to invest in compliance resources, both the system and human kind.

The complexities of these new rules have made many firms consider other options around regulatory reporting. Two new rules that came into effect during 2012, ESMA Short Selling and ESMA Sovereign Debt had put pressure on firms to extend existing systems that just were not ready to handle the complexities. Many firms had to deal with these new rules outside of their systems. This, along with those other factors already mentioned, has driven firms to seek outside solutions.

Corporate downsizing during the financial crisis resulted in a loss of resources that held system expertise for solutions. Loss of compliance and or operation staff has impacted some firms' ability to respond effectively to regulatory changes that must be addressed in proprietary systems. This lack of internal system knowledge means that firms are taking longer to ensure systems meet the regulatory requirements.

Reduction of compliance staff has also impacted the firm's ability to appropriately monitor and access the firm's regulatory obligations as it pertains to those countries where the firm has holdings. Large firms can be investing in upwards of 40 countries; all of which have their own shareholding disclosure rules. A firm must have resources to monitor the regulatory agencies where they have holdings and they must also have in-house expertise to understand the regulatory requirement. Failure to monitor and understand the obligation will result in a missed or improper disclosure filing which will result in a fine. Just this past May, a large global bank was fined more than $200,000 for "regulatory breaches and internal control failings" as it related to their substantial shareholding reporting in Hong Kong.

This same fine highlights one of the other factors which is data availability. The underlying cause of the fine was missing data. The bank did not have all the necessary data to appropriately address their reporting obligation. Firms do their best to create and maintain data warehouses but there are always gaps. Gaps in data can occur because in-house expertise is not available to advise what data is needed and/or reliable data is just not available. Firms continually throw resources at their data problems but when you are dealing with the volumes of data that large banks and investment firms handle there are going to be gaps. The issue becomes how to address those gaps so that they don't become a liability.

What isn't clear is whether or not the missing data was missing because it was not available within the firm or the in-house expertise needed to advise operations that the data was needed was missing. This brings us to what is probably the biggest driver for firms to change to a third party system, and that is – the ability to adapt quickly to regulatory change.

Third party solutions have advanced in the area of substantial shareholding disclosure automation by way of analytics and country coverage. Purpose built solution providers that understand the evolving client requirements are better able to address regulatory change in their systems than firms with proprietary systems because they have developed their systems to easily adapt to regulatory change. Whereas, proprietary systems were largely created to address the regulatory needs at a point in time and not forward looking to future needs.

Firms are now realizing that teaching their old dog a new trick is costlier than moving to a third party system that can address their regulatory needs more accurately and efficiently for less than what they can do on their own.

Author: Anna Monteiro, is the Head of Business and Product Development for Solutions Atlantic. Solutions Atlantic is the market leading provider of shareholding disclosure solutions to the global financial services industry. For more than a decade, its Regulatory Reporting System (RRS) has been at the forefront of global shareholding disclosure obligations and currently supports a client base having nearly$3.5 trillion in assets under management. With regulatory rules for over 80 jurisdictions, RRS leads the way in complete workflow automation including; monitoring, alerting and disclosure document generation. Solutions Atlantic is headquartered in Boston, MA. Visit www.solutions-atlantic.com to learn more about Solutions Atlantic and RRS.