True or False? MiFID II & Dodd Frank are positives

With so many new rules, it is getting more difficult to conduct business. Are regulations choking the markets or are there some benefits? Alex Lamb, of The Technancial Company, examines each side of the coin—after all, there are two

So, let's begin with what we all know and talk about, the challenges or negatives of regulation. There are six key areas including cost; complexity, change, collateral, checks for risk, and crisis.

- Cost: All regulation is bad, in that it drives business costs sky high.
- Complexity: Implementing all the new rules hurts on many levels. The more compliance rules that need to be monitored mean more details need to be kept. This affects the way we record activity and the way individuals are monitored (surveillance).
- Change: Record keeping changes, established processes require modification and additional (mostly technical) skills need to be learned. Included within these changes are the ways of doing

business, which participants were previously free to formulate.

- Collateral: Now, it's impossible to make a deal without first checking that the client (or counterparty) has enough in place. Not just to cover the trade, but to fund it should something go wrong. Introducing more controls such as real-time valuations of collateral, initial margins and the 'best' market price for an instrument affects this process and adds to the cost.
- Check for risks: Keeping trades on an account can no longer be a 'do it and forget it' thing. Evaluation for risks that might affect the account is now required, ensuring it passes certain tests. These have to be performed in accordance with rules, which takes us back to point two—complexity.
- Crisis: Positions need to be automatically stopped from expanding, or even liquidated, if they are identified as being out of compliance.

But, are they really challenges? In the face of complaints, the fact is these points have extremely strong positive benefits, which include:

- Cost control: More firms are re-examining existing systems and not just software. Communication, back office and risk management, market data and monitoring systems are all under scrutiny. The big question is: how can these systems be implemented holistically? The result is well-thought through, consolidated business processes, with adequate redundancies of course, to reduce single system dependency.
- Complexity: Simplification of process implementation through the aforementioned holistic approach means adopting a uniform message (with information exchange structures) and conferring with other experienced and cost-conscious players. It's also vital to be able to rapidly pick evolving and well-established industry standards, such as FIX Trading. Finally, it requires thinking of the transaction as the constant whose journey through processes is used by variables applied to it.
- Change: Accept it, change is here and already embraced. Changes already in progress won't stop, as the momentum is being driven by the uncovered value of improvement. Change is good—new ideas for old problems, new problems are challenges to beat, generating added value beyond that change. Why else would there be so many regulatory technology startups? While many will fail, large numbers are being embedded in the business corpus and are here to stay in some form or another.
- Collateral: The dusty asset storage vault is now a fresh new place to earn money from dynamic valuation, better utilisation and better storage costs, and turning this into a business line can generate additional revenues, thereby reducing costs. Participants know more about all aspects of their business than before. Collateral, initial margin and risk are now all part of the controls that the broker, client and regulators can use as part of their business tools.
- Checking Risks: Without awareness there are risks. Every aircraft (even light aircraft) has radar and electronic navigation systems. These were once too expensive and hard to calibrate. Learning and experience have made them standard utilities. Risk management and stress testing tools are no different. They are often poorly calibrated, unfocused and prone to poor quality data inputs. However, they are improving and rapidly becoming as essential to the industry as air is to animal life!

Real-time information moves these tools from looking at theoretical outcomes, based on old data and account ranking criteria, to now useful exception reports based on latest data on all accounts. Sorting and alerting is based on the latest user actions and market moves, rather than market move values based on last night's positions. Consider: What time was the market closed? Was next session market opening for today being ignored at the time of the account output? At the same time, moving markets make these stale outputs largely irrelevant.

- Crisis controls: Firms must look at prudent and practical damage control methods, which are not unaffordable or impossible to implement. Simply, our industry requires interoperability of systems, which given all of the above, is rapidly moving into place.

Some firms started modifying their systems a while ago, driven by a desire to improve client service, which of course is why most of us are here. A big element driver towards a uniform approach to message formats (transactions for example) was and is the desire for easier integration or onboarding, whichever you prefer. Data storage and data exchanges need to be simpler and more useable. The old approach, meaning silos, required different methods for various uses. Narrower views resulted in many different formats (lack of standards) within even a single firm. This is no longer acceptable.

The FIX Trading Community isn't just about trading. It is about communication, collaboration and change. It's open and consultative approach is instrumental in positively impacting all market participants. It is an association of members whose common goal is making business better. The most major and many minor firm members are active in pushing for standards that continue to improve the entire trading lifecycle.

In sum, regulations will have done all of us a huge favour, perhaps not the intended consequence. Like renewable energy, once seen as a 'pie in the sky', an imposition on us, regulations are moving us away from fossil fuels as energy sources, for sake of the health of humans.

Yet the message is out, alternatives appear to work. The momentum of change in protecting the health of the financial system is gathering. Rolling back the rules will not stop transformation or innovation in the industry, especially now that we have started to realise the benefits. **SLT**

The dusty asset storage vault is now a fresh new place to earn money from dynamic valuation ... turning this into a business line can generate additional revenues

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