# 2008 – 2018: A Decade of Reform is more than enough!

**After six years of intensive focus on legacy issues in Private Banking, four more years will be spent on the implementation of major new regulatory frameworks. This next phase will be crucial in terms of remodelling the private banking marketplace. At the end of this very intensive decade of reform, and corresponding industry consolidation, unencumbered competition between financial centers and market participants should return in earnest.**

Not only will this entire process last for 10 whole years, but it will largely be driven by factors outside of the control of financial industry participants. While that's the bad news, the good news is that more than half of the process is behind us. Still, the drawn-out process is certainly testing our commitment and motivation to see it through to the end in the face of ongoing implementation and its demand on focus and resources.

> *„The drawn-out process is testing our Committment"*

Looking at the landscape of reform in more detail, by mid 2014, FATCA will become the first major regulatory framework implemented on a global basis through the introduction of monthly delivery of transaction information relating to clients with U.S. tax liability. FATCA already serves as a model for the AIE (automatic information exchange of tax relevant financial transaction information), which is currently being developed as the new standard for OECD member countries.

Thus far, 42 countries - among them all members of the European Union - have decided to adopt the reciprocal OECD-AIE standard to exchange tax relevant information. The implementation - which is expected to be completed by 2018 – is highly complex, as procedures have to be agreed on a bilateral basis between individual participants. There is currently one major unresolved question: the extent to which client relationships domiciled in countries that do not adopt OECD standards will be affected. Some global players might even completely withdraw from these markets due to compliance considerations and terminate all remaining client relationships in the countries concerned.

Another major regulatory framework, the Mifid II directive (markets in financial instruments directive) will be put into force in Europe presumably by 2017. This directive will regulate the access of non-EU-members to European financial markets. Originally initiated in order to improve consumer protection standards following the subprime crisis, this directive contains a comprehensive set of rules which will be mandatory for all market participants, with objectives of increasing transparency, developing standards for product compatibility, as well as adapting the commission- and fee bases. The scope of Mifid II is being continuously extended, making it difficult for market participants to prepare themselves for the new rules in time. Switzerland is developing Fidleg (Financial Services Directive) in parallel to Mifid II, with a very similar content. Due to the resulting, increased complexity, some smaller banks and asset managers with a strong focus on European markets might not be able to continue to operate profitably and will have to abandon their autonomy.

Last but not least, Finma (Swiss regulator) is currently circulating the revised version of the Operational Risk Framework, with the objective to implement rules for the handling of electronic client data by 2015. This directive covers a wide range of related topics, ranging from dealing with legal and fraud to IT glitches.

### What are the implications of the new regulations?

It is positive that the shape of the future regulatory framework of the financial market place is becoming clear. The financial institutions can finally prepare themselves for the future, and it is unlikely that there will be other big surprises in the next few years on the regulatory front.

Most Market participants are well advanced in their preparations for the implementation of the new rules and may get back soon again to focus their attention on competitive issues.

Both the preparation and the implementation of the new regulations are engaging massive human- and capital resources and leading to increased complexity and hence higher costs of private banking services, which can only be recovered through industrializing the offering or through new commission models and metrics.

The new regulatory framework will greatly affect client advisors, and add further to their existing activities, with complex compliance requirements becoming an even more central part of their function. This will lead to an increased need for training and also encourage a more team-oriented approach to best offer the Private Banking experience.

Robert Hemmi, Managing Partner, rhemmi@tcpgroup.ch