Global Regulatory Strategy

Deloitte Touche Tohmatsu LLC
Japanese asset managers are increasingly operating across the globe, in Asia, Europe, the Middle East, and the US.

Where they historically served a core domestic Japanese client base, they now face complex regulation from across multiple jurisdictions from MiFid to ERISA, some of it sometimes seemingly contradictory with each other and also with domestic Japanese regulation and practice.

Some partner with local distributors, or provide investment strategies under white label solutions, but even here they will be required to help their partners comply with local regulation.

As their global assets grow, separate teams and processes serving clients in different regions will need to be integrated into the core business.

This will require a single global regulatory strategy and core operating model to provide consistent quality and service across both Japanese and international jurisdictions in an efficient manner, and help build enough scale for better growth momentum and cost efficiencies going forward.

The next slides are a summary of a research report from Deloitte University Press, “Building regulatory-ready organizations: Managing regulatory and compliance risk at investment management firms”, on global best practice.
A framework that follows a comprehensive path across the organization

### Regulatory Readiness

1. Deloitte Global Risk Management Survey
   - 81% of investment management firms see regulatory risk as a top challenge

2. Regulatory ready organization attributes
   1) Framework for risk assessment
   2) Mechanism to track and measure risk
   3) Method to allocate resources based on its understanding and experience of risks

### RARE Team

RARE Team key to regulatory readiness

1. Regulatory Assessment and Response Execution Team
   1) Have an enterprise-wide regulatory view
   2) Interpret and prioritize
   3) Conduct scenario planning exercises and risk assessments
   4) Effectively communicate
   5) Implement across functions

2. FORREST functional areas
   1) Finance
   2) Operations
   3) Regulatory
   4) Reporting
   5) Extended enterprise
   6) Strategic
   7) Technology

Stage 1 - Sensing and influencing the regulatory environment

**Sensing**

Continually monitoring the external regulatory environment to identify potential risks and opportunities to the organization

1. **Increase regulatory awareness**: Take a proactive approach to legislative, regulatory, and litigation events

2. **Refresh government relations function**: Form a hub of expertise using a blend of in house and virtual resources

**Influencing**

The process of educating regulators and key individuals in policy making on industry, sector, or organization perspectives in order to help shape legislation and regulation

1. **Embrace new technologies, data, and analytics**: Leverage regulatory data to drive action; share across the organization

2. **Influence for effect**: Dedicate resources to lobbying and other activities that may impact growth and profitability

3. **Measure the impact of influence**: Tally the effects of influencing, including tangible and intangible outcomes

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Stage 2 – Planning and prioritizing in a fluid regulatory environment

Regulatory Change Planning and Prioritization Process

Benefits of a structured and collaborative risk planning and prioritization approach:

1. Developing an objective analysis for different regulatory/compliance changes

2. Introducing business, product, distribution, and structural changes/responses that align with the strategic plan and vision of the company

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<tbody>
<tr>
<td>- Product portfolio</td>
<td>- Risk assessment heat map</td>
<td>- Determine risk assessment criteria</td>
<td>- Risk Appetite Statement</td>
<td>- Develop target operating model,</td>
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<tr>
<td>- Distribution channels</td>
<td>- Identify impact of regulatory changes</td>
<td>- and scale</td>
<td>- Highlight components of business most impacted by the regulatory changes</td>
<td>integrating high level regulatory change plan</td>
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<td>- Client segmentation</td>
<td>- Strategic</td>
<td>- Detailed risk assessment</td>
<td>- Shortlist operating model responses</td>
<td>- People</td>
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<td>- Revenue split</td>
<td>- Operational</td>
<td>- Impact on earnings over a given time horizon at a given confidence interval</td>
<td>- Cost/benefit analysis and other business modeling techniques</td>
<td>- Process</td>
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<td>- Pricing policies</td>
<td>- Overall</td>
<td>- Identify compliance related issues</td>
<td>- Develop a regulatory response plan that aligns with strategic roadmap</td>
<td>- Technology</td>
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<td>- Asset class</td>
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<td>- Product structure</td>
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<td>- Regulatory agencies</td>
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Stage 3 - Transition from the existing operational model to the target model

Implementation of Regulatory Change Management Program

- Organizational structure, business processes, applications, data sources, and repositories may be modified through the transition to meet the target operating model
- Capabilities are formed to address multiple regulatory requirements across business units and processes

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<tr>
<th>Form Team</th>
<th>Analyze</th>
<th>Design</th>
<th>Develop Solutions</th>
<th>Deploy</th>
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<tbody>
<tr>
<td>RARE Team coordinates with Project Management Office</td>
<td>Balance long term strategic direction with new regulation deadlines</td>
<td>Risk based approach to regulatory compliance and resource allocation</td>
<td>Execution/quality control of target operating model</td>
<td>Full audit trail and accountability</td>
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<tr>
<td>Build institutional knowledge over time about solutions for regulatory outcomes</td>
<td>Updating applications while readying more strategically aligned replacement solutions</td>
<td>Mapping regulations to business units, products, and geographies</td>
<td>Mitigation of risks by monitoring market events and using alerts/thresholds</td>
<td>Documentation of compliance testing results provides stakeholders with relevant and reliable information about the compliance program</td>
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<td>Management reporting and comprehensive compliance dashboard</td>
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