

Financial Services Regulatory Landscape

REGULATION	DATE	PURPOSE	IMPLICATIONS FOR FINANCIAL SERVICES FIRMS
Basel II and Capital Requirements Directive	Implement 2006-2008	Modernize the existing framework to make it more comprehensive and risk-sensitive and to foster enhanced risk management amongst financial institutions.	Basel II outlines a set of approaches, ranging from “standardized” to “advanced” to address the capital adequacy requirements arising from credit, market and operational risks. They ensure that these institutions hold a minimum amount of capital to back up the risks to money entrusted to them. This will maximize the effectiveness of the capital rules in ensuring continuing financial stability, maintaining confidence in financial institutions and protecting consumers.
Clearing and Settlement Directive	Enacted Oct 2005	Improvement of cross-border clearing and settlement processes, to allow market participants to operate effectively in an integrated (“Single Market”) financial framework.	Various initiatives are necessary to achieve an integrated, safe and efficient clearing and settlement environment for securities trading in the EU, based on a level playing field for the different providers of services. Achieving this objective will be a complex process and will require the combined efforts of institutions providing clearing and settlement services, market participants, regulators and legislators.
MiFID (“Markets in Financial Instruments Directive”)	Enacted April 2007	Integrated structure for a Pan-European market for investment products, with common rules and definitions. It will prevent countries from putting-up artificial barriers that burden cross border trading and promote competition between trading venues and a <i>best execution regime</i> .)	Pre-trade transparency - Most business, whether traded on or off a regulated market, will be subject to pre-trade transparency. Post-trade transparency - All trades executed in a security listed on an EU regulated market must be published. Best execution - Investment firms must achieve best execution for clients, taking into account price, cost and speed, etc. Risk of data fragmentation - Greater choice in trading venues will result in quotes and trades in the same security being published via a number of different channels. Regulators and the financial industry must find a way to ensure that investors are still able to have a complete market-view.
Market Abuse Directive (“MAD”)	Effective Oct 2004	Single regime aimed at reducing the incidence of market abuse, covering disclosure and handling of inside information by issuers; obliges issuers and advisers to maintain insiders' lists; directors to disclose dealings in their own company's shares; and, FSIs to report suspicious transactions.	MAD applies to financial instruments admitted to trading on a regulated market All firms and individuals participating in such markets are within the scope of the regime. Consequently, implementing the MAD has an impact on a large proportion of regulated entities including: securities firms, banks in the securities business, alternative trading systems, recognized investment exchanges, and listed companies.
3rd Money Laundering Directive	Enacted Sept 2005	Its stated aim is to include terrorist financing within the money laundering provisions.	All money transfers into and out of Europe has to include the name, address and account number of the sender of the funds, to provide traceability to the source.
Unfair Commercial Practices Directive	Enacted May 2005	Obliges businesses not to mislead consumers thru acts or omissions; or subject them to aggressive sales practices, e.g., high pressure selling techniques.	Wide-scoped, it applies to all business sectors. Its flexible provisions mean that it will plug gaps in existing EU and UK consumer protection legislation, and set standards, against, which, new practices will automatically be judged.

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Basel II	2008	Improve measurement of total risk and strengthen ability to determine capital needed	Devise and implement new methodologies and systems to measure and monitor credit and operational risk (only a select number of top institutions will be required to comply, with others choosing to do so, voluntarily)
Sarbanes-Oxley	Enacted	Strengthen financial reporting, internal controls by fixing responsibility within companies' management	CEO and CFO certifications of annual and quarterly SEC reports; evaluation of the effectiveness of internal controls; rapid disclosure of material changes in financial conditions or operations. Set-up of automatic controls repository to identify deficiencies and support management's decisionmaking processes.
International Accounting Standards	Enacted	Enable common understanding of financial reports	Adopt accounting procedures as mentioned under the newlyadopted accounting standards
Patriot Act	Enacted	To prevent usage of the financial system to support illegal activities, particularly terrorism	Customer Identity-Validation Program Requirements and anti-money laundering exception-generation, handling and reporting programs
Anti-Money Laundering (AML) Regs	Enacted	Prevent the laundering of money derived from illegal activities	Build or acquire automated surveillance systems, CRM systems capable of identifying anomalous account holders' and their transactional activities
Gramm-Leach-Bliley	Enacted 1999	Financial Services Modernization. Creation of the Financial Services Supermarket in America.	Repeals the Depression-era barriers that separate banking, insurance and securities. It overturned the key provisions of the Glass-Steagall Act that divided the American financial system.



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REGULATION	DATE	PURPOSE	BANKING INDUSTRY IMPLICATIONS	IMPLICATIONS FOR FINANCIAL SERVICES FIRMS
Check 21	Enacted	To create a uniform standard for check reproductions and to reduce costs and delays of paper check processing	Need to invest in check truncation and imaging technology, accept electronic images for presentment, and automate processing at branches, ATMs and processing centers	Funds Clearance and Settlement. AML/Patriot Act Implications. Tracking of Funds Movements.
Pending soft dollar regulation	Feb 2006	Increase pricing transparency in the form of limiting use of soft dollars	Bank-Owned Investment Banking and Broker-Dealer Subsidiaries	Decrease amount of commissions bundling; buy-side will see increase in expense due to hard dollar spending
National Market System (NMS)	Jun 2006 Phase-in Starts	Increased electronification of exchanges	Bank-Owned Investment Banking and Broker-Dealer Subsidiaries	Increase direct connectivity to markets through ECNs and ATSS.
Revenue sharing/directed brokerage	Est. 2006	Two draft regulations that seek to limit the revenue and order flow sharing practice of paying third party distributors when they recommend specific funds	Bank-Owned Investment Banking and Broker-Dealer Subsidiaries	Increase transparency of asset manager/broker relationships; increase advice and education to third party distributors to maintain referral rate
Hedge fund regulation	Est. 2006	Protect individual and institutional investors	Bank-Owned Investment Banking and Broker-Dealer Subsidiaries. Direct or Distribution-Channel Implications.	Designate CCO, report compliance policies and adherence annually, will be an issue for smaller firms as large firms already comply
SEC 38a-1	Enacted	Strengthen compliance to all Federal Securities Laws	Bank-Owned Investment Banking and Broker-Dealer Subsidiaries	Designate CCO, report compliance policies and adherence annually

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Insurance Solvency Directive	Phased Approach started May 2001	Initiative seeks to protect policyholders against the isolated risk of an individual insurer going bankrupt.	Develop an internal European insurance market to adapt existing regulations to the new market conditions." Solvency II," makes qualitative and quantitative risk assessment of "overall solvency" of insurance companies a requirement.	Insurance companies are required by their member states in the European Union to create a sufficient solvency margin in proportion to their business activity .
Prospectus Directive	July 2005	Homogeneous requirements for governing information contained in prospectuses, as well as, format, and the dissemination of adverts.	Has regulatory implications for universal banking and investment services, in addition to services related to savings and loan activity.	The key provisions of the directive are: Prospectus Requirements; Approval and Publication; Passport Rights; and, Third Country Issuers
Sales Promotion Directive	Unknown	To overcome long-standing market controls in many Member States which were an obstacle to sales promotions across borders.	Improve the functioning of the single market and economic efficiency of the European Union by harmonizing and liberalizing regulations related to all types of sales promotions.	Considered by many to be a highly controversial and seriously flawed piece of proposed legislation.
Transparency Directive	Jan 2007	Improve the transparency of EU capital markets by enhancing the timeliness and quality of disclosures, requiring periodic financial reporting, within 4 months of the end of the fiscal year + interim financial reports within 2 months of period-end.	The directive particularly deals with financial reporting, disclosure of interests in securities, and information provided to holders of shares and debt securities. The most significant change is the introduction of mandatory quarterly reporting for equity issuers.	All securities issuers, traded on a regulated market, will have to produce prescribed financial reports. Such reports will require a confirmation statement by "persons responsible" for the management report (the Chief Executive Director and Finance Director) that the report gives a fair view of the company's overall position. These financial statements must give a true and fair view.
UCITS III ("Undertakings for Collective Investments in Transferable Securities")	Feb 2004 Proposed Enhancement Dec 2005	UCITS forms the basis for an integrated market facilitating the cross-border offer of collective investment funds.	UCITS operate under a passport system, so that they can be offered for sale throughout the EU once they have been authorized in one member state. The aim is to boost the use of UCITS across borders, thus increasing the size of the funds to which UCITS contribute, maximizing investment potential in the EU, as a whole.	The UCITS Directive provides the framework for cross-border sales of investment funds in the European Union. The Directive allows a fund that qualifies under the Directive to be sold throughout the EU subject to regulation by its home country regulator.
Credit for Consumers Directive	Effective May 2005	Creation of a "Single Market" in consumer Credit	Credit may increase opportunities for buying things when one needs or wants them, from a package travel to a car to clothes – but too much exposure to credit may be a risk. Home loans are excluded from the scope of the proposal on consumer credit	Fair competition in a genuine Single Market for consumer credit.

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About QUMAS

With over a decade of experience, QUMAS is the only global compliance software company offering a complete solution to regulated industries. Recognized as the world leader in Enterprise Compliance, Governance and Risk Management, the company has over 250 customer deployments including global leaders such as Fidelity Investments.

QUMAS is the only vendor that offers a solution of products that enables companies in financial services, life sciences and other regulated industries to achieve complete, enterprise-wide compliance with a broad range of regulations and initiatives.

QUMAS provides highly configurable applications, ready for validation and deployment within regulated environments. Based on open systems platforms, QUMAS technology integrates seamlessly with existing corporate database, applications, operating systems and hardware from most major vendors.

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