

The logo for SAI360, featuring the text 'SAI360' in a bold, white, sans-serif font. The '3' and '6' are stylized with a circular element around them. The background of the entire page is a low-angle, blue-tinted photograph of modern glass skyscrapers, with the Shard visible in the distance.

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BUYER'S GUIDE

REGULATORY CHANGE MANAGEMENT

A Step-by-Step Guide to Building the Case
for Regulatory Change Management Technology

Summary

This is your guide to ensuring your firm has the most effective and efficient regulatory change management (RCM) capabilities at a time when the regulatory environment is becoming increasingly dynamic and demanding.

Whether you are a compliance officer, a senior executive or a regulatory analyst, this guide will help you to understand the things you need to consider in defining your firm's approach to managing regulatory change and defines the fundamental building blocks that will help you get there.

Regulatory change management is one of the biggest but most underestimated compliance challenges facing financial services firms today. Whilst an ineffective RCM process in and of itself is unlikely to directly result in regulatory sanctions, regulatory authorities are paying increasing attention to how financial firms operationalize regulatory changes.

An integrated Regulatory Change Management solution streamlines the entire regulatory change management process, reducing risk, increasing efficiency and providing users with the assurance that everything is under control.



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REGULATORY CHANGE MANAGEMENT

As anyone who works in a compliance or regulatory role knows, regulation is not static. Every highly regulated industry operates in a dynamic environment, where the regulatory framework is constantly evolving. Financial services is no different, and given the importance of the financial industry to the global economy, it is arguably one of the sectors most exposed to regulatory change.

There are several main drivers of regulatory change. Firstly, geopolitical events such as the advent of a new political administration in the US or the impact of Brexit in the UK and Europe can signal a different political approach to regulation. Secondly, new risks are constantly emerging, often driven by innovation such as the

increased adoption of artificial intelligence or the creation of new classes of financial product such as cryptocurrencies and digital assets. Thirdly, external shocks can require a regulatory response. Recent examples include the coronavirus pandemic and climate change. Lastly, events that are endemic to the financial system can prompt new regulatory thinking, such as the retail investor movement that backed GameStop¹ stock in 2020.

Irrespective of the origin of the regulatory change, managing it can be an overwhelming task given that regulation is only one of several dynamic forces firms have to balance. The external risk environment is constantly changing

and it is the nature of large, complex businesses that they are also highly dynamic.

Firms that successfully manage regulatory change quickly understand what regulatory developments are on the horizon, determine how they will be impacted (if at all), specify what they need to do in response and keep track of these actions so they know where they are at any point in time. Most importantly, they also know who is accountable at every stage of the process, ensuring that no detail is missed.

¹ <https://www.warren.senate.gov/imo/media/doc/Warren%20-%20GameStop%20-%20ES159891%20Response.pdf>



CHALLENGES OF REGULATORY CHANGE MANAGEMENT

Managing regulatory change is perhaps one of the most difficult tasks facing compliance officers in financial services. Since the global financial crisis of 2008-9, a complex and potent mix of challenges has resulted driven by three key factors – the variety, volume and velocity of regulatory changes.

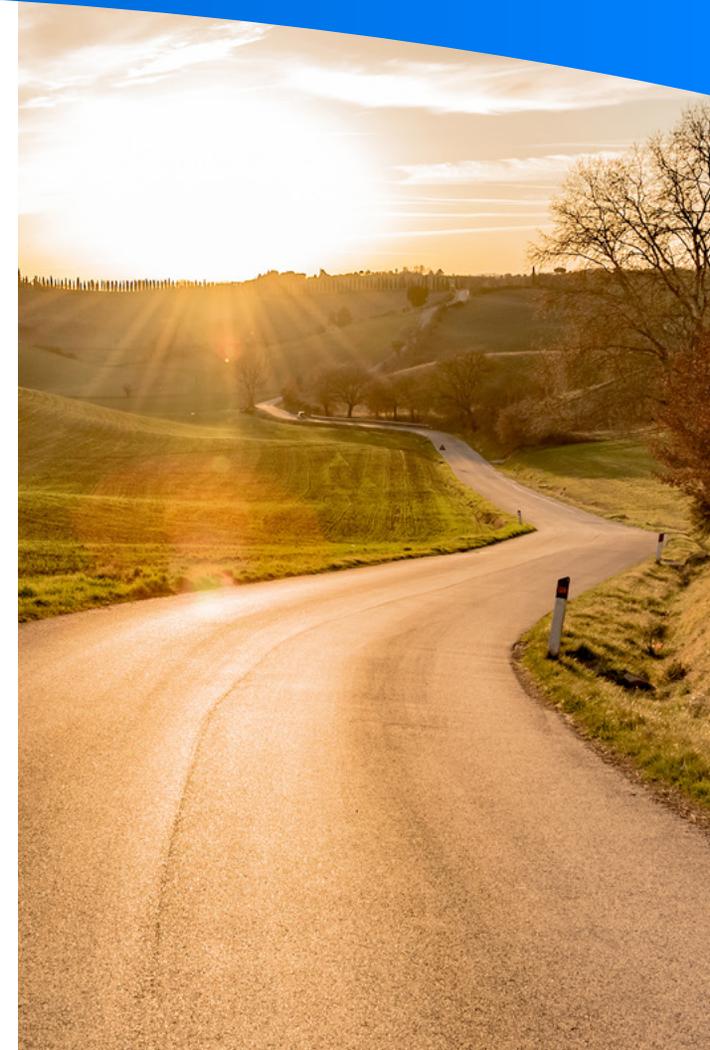
VARIETY

There is huge variety in terms of the targets of regulation. Today, regulation touches nearly every aspect of a financial services firm from capital adequacy to operational resilience and everything in between.

Firms have to cope with the plethora of regulators and standard setting bodies who publish regulations. Globally, bodies such as the Financial Action Taskforce (FATF), the International Organization of Securities Commissions (IOSCO) and the Basel Committee on Banking Supervision (BCBS) set out the direction of travel and aim to promote a degree of consistency. In the EU, attempts are being made to harmonize regulation at a supra-national level. Finally, at a country level there are often multiple national

regulators who derive rulebooks based on overarching legislation but have to account for nuances relating to country-specific factors.

Grappling with the profusion of types of regulatory change information is also a daunting task. Regulators publish many types of regulatory documents including speeches, enforcement notices, consultation papers, final rules and guidance. Each regulator will have its own specific format for publishing documents and there is a lack of standardization which makes it very difficult to consume this variety of content in a streamlined manner. Layered on top of this are additional sources of information related to regulatory change regulatory news providers including law firms and other professional services firms, content aggregators and other useful websites.





As a result, firms are often overwhelmed by information – it can be difficult to pick out what is important and what is not. Inconsistencies between international regulations and those set by different jurisdictions and the resulting regulatory divergence is estimated to cost financial institutions between 5-10% of annual turnover.² Practical difficulties also arise in extracting structured information from such a variety of unstructured sources in numerous different formats.

VOLUME

Since 2008, the number of regulatory changes issued globally has increased exponentially, with the average number of daily regulatory alerts in 2020 standing at 257.³ However, not all regulatory alerts are equal. A single alert could be the introduction of a new piece of regulation that is hundreds of pages long, containing thousands of new regulatory obligations, all of which have to be combed through to fully understand the impact. Alternatively, what could, at first sight, be a small ‘tweak’ to an existing regulatory rule could in fact have a significant impact when it comes to implementation and compliance.

With this level of alerts, even determining the relevance of a change is a very time-consuming task as the possibility of missing something rises as the volume of changes increases. Failing to identify and implement a relevant regulatory change would significantly raise the compliance risk exposure of the organization.

VELOCITY

The pace of regulatory change can sometimes seem relentless. No sooner has one major reform been completed, then another is on the horizon. A case in point is the EU’s rules around financial crime and anti-money laundering. Hot on the heels of the 5th and 6th Anti-Money laundering directives (which came into force in January 2020 and June 2021 respectively), in July 2021 the EU announced a new legislative package for combating money laundering and terrorist financing in the EU.⁴

The past decade has seen an acceleration in the process of rulemaking, especially in response to new risks (e.g. digital assets such as cryptocurrencies and other tokens) and shocks to the external environment such as the coronavirus

crisis. Implementation timelines are also challenging, especially when detailed technical guidance is not available (e.g. as in the case of the EU’s Sustainable Finance Disclosure Regulation).⁵

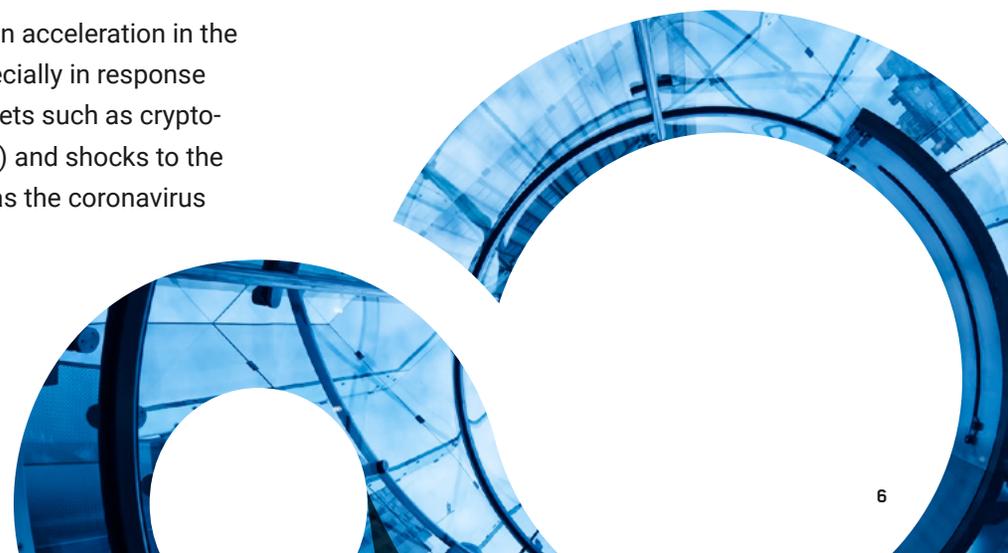
Keeping up with this tempo of change adds to the challenges in ensuring that changes are not missed and that compliance is achieved by the required deadline. In turn, this puts significant stress and pressure on resources to deliver on time. Regulatory change management processes have to be efficient to ensure that the right people are notified of changes as quickly as possible so that momentum can build quickly.

2 <https://www.ifac.org/system/files/publications/files/IFAC-OECD-Regulatory-Divergence.pdf>

3 Thomson Reuters Cost of Compliance 2021 - Shaping the Future

4 https://ec.europa.eu/commission/presscorner/detail/en/IP_21_3690

5 <https://www.regulationtomorrow.com/eu/sfdr-draft-rts-further-delayed-what-does-it-mean-for-firms-2/>





DEFINING YOUR APPROACH TO REGULATORY MANAGEMENT

Here are some key considerations to help you in defining how you want to organize regulatory change management in your firm:

WHAT KIND OF OPERATING MODEL DO YOU NEED?

Centralized or federated?

Do you have one team that is responsible for triaging all regulatory notifications or do you have multiple teams based in business units or geographic regions?

If the latter, you will need to ensure there is adequate oversight so that alerts are not missed or unaccounted for.

Compliance, Risk or Legal?

Which part of your organization has ultimate oversight and senior management responsibility for managing regulatory changes?

This responsibility often sits in different places depending on the organization so clarity about this from a senior management perspective is crucial for establishing clear lines of accountability.

Change programs or Business As Usual?

Some regulatory changes will clearly need a change program of their own for further analysis and implementation, whereas others can be dealt with as part of business as usual. Firms should have a clear policy and understanding of the necessary criteria for standing up a change program, with associated governance processes for agreeing funding, etc.

Consider using technology solutions that have been designed to be agnostic and able to work with any type of operating model. This allows firms to determine their own best approach rather than forcing firms to conform to a predetermined process.



WHAT KIND OF DATA DO YOU NEED?

Regulatory change management is not often considered through the lens of data, and it can be very helpful to take this perspective, particularly if your firm is working on the automation of the regulatory change process.

Data that is usually required in the regulatory change management process includes:

- External sources of insight on regulatory changes
- Internal data such as
 - **Organizational structure**, including legal entities, business units, countries of operations, product lines
 - **Regulatory obligations** – an inventory of all the regulatory rules that apply to your firm
 - **Policies** – all the internal policies that govern the organization
 - **Risks and controls** – an inventory of all the risks to which the organization is exposed and the controls that are put in place to mitigate them

Knowing where this data is located within your firm as well as its quality and completeness is critical when trying to understand the detailed impact of a regulatory change. Also it is critical to ensuring that all necessary actions have been taken to update policies, controls and risks in line with regulatory changes.

Seek out systems that can act as a central repository or library for this data, allowing users to map regulatory changes, policies, controls and regulatory obligations easily, using automated workflows to ensure changes are enacted when required.



HOW ARE YOU GOING TO MAKE USE OF TECHNOLOGY?

Financial services institutions can be easily overwhelmed by the speed and amount of regulatory change, especially if they are trying to deal with it manually using emails and spreadsheets.

Most firms are looking at some degree of technological support, but the degree to which you automate the process will depend on a number of factors, including:

- Size
- Geographic spread
- Regulated activities they undertake

Obviously, the larger and more complex an organization is, the more challenging regulatory change is to manage.

You need to decide where your firm wants to start in automating the regulatory change process as there are multiple places where technology can significantly improve the efficiency and effectiveness of the process.

- Horizon scanning is an obvious starting point – moving from manual scanning of multiple regulator websites to a single source of regulatory insight can deliver a step-change in simplifying and reducing the risk in the regulatory change management process
- Other firms are beginning by creating a dynamic inventory of their regulatory obligations and then, using technologies such as natural language processing (NLP) and machine learning to automatically flag where a regulatory change may impact their organization

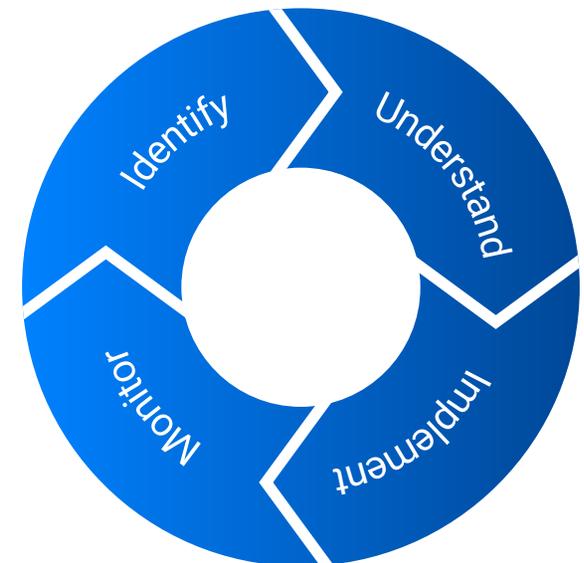
An attractive alternative approach for firms is to think about automating the entire orchestration of the process instead, using a system that can be seamlessly integrated with their regulatory content provider. Their repository of regulatory obligations can then be seamlessly imported and dynamically mapped to regulatory changes.



BUILDING BLOCKS FOR EFFECTIVE REGULATORY CHANGE MANAGEMENT

Irrespective of the size, complexity and geographic location of a financial services firm, there are some fundamental building blocks that are essential for the effective management of regulatory change.

- 1 IDENTIFY** the changes that are on the horizon and of relevance to your organization
- 2 UNDERSTAND** the high-level impacts of the changes on the organization
- 3 IMPLEMENT** a series of actions to ensure the organization is compliant with the changes
- 4 MONITOR** the implementation of these actions to be able to track and evidence compliance





1 IDENTIFY

IDENTIFY

Key technology features to look for

- Ingestion of regulatory content from any provider of your choice, storing it as structured data in a central, dynamic repository
- Automated daily feeds of new or revised content tailored to your organization are delivered, notifying you of changes that need to be addressed
- Ability to allocate regulatory alerts to the person in the organization best able to deal with them

With over 250 alerts a day, how do you know which ones apply to your organization and which ones you can ignore?

It is important to have trusted and reliable sources of regulatory change information but it can be time-consuming to source all this information from separate regulatory sources. Consider whether there is a single supplier of all the regulatory change information you need.

You will need to understand the full range of regulators that have rules applying to your organization in terms of subject area, products, activities and geographies and ensure any suppliers you select have coverage of all those sources.

In turn, you need a clear understanding of all the legal entities within your organization, across business units, divisions and products so you can track changes from all relevant regulatory authorities.

How can you ensure identified changes are routed to the correct people in the organization?

Identifying the accountable people for each regulatory change within your organization is critical to ensuring that the change is processed in a timely manner.

Being clear about roles and responsibilities for different types of regulatory changes can help to avoid changes slipping through the gaps.



UNDERSTAND

Key technology features to look for

- Functionality which allows you to keep a central record of your organizational framework – the legal entities, business units and offices across the globe so you can easily map changes to the impacted areas
- Ability to conduct multiple impact assessments for each regulatory change and the assessment and scoring methodologies are fully configurable so suit your specific requirements
- A central repository for the storage of compliance obligations, policies and controls and regulatory changes can be mapped to relevant content

2 UNDERSTAND

How are you going to prioritize how you allocate resources to responding to regulatory changes?

Conducting a high-level assessment of the impact of a change is one way to do this. For example, does the change have a significant financial impact? Might the change pose a significant reputational risk if not dealt with in the right way? Are there legal consequences of the change?

Different parts of the organization may be impacted differently by the change so it is useful to be able to conduct multiple impact assessments to assess where the 'hot spots' are so they can be dealt with efficiently and effectively.

As well as understanding the overall impact of a change, firms will also need to understand what existing regulatory obligations, policies and controls are impacted, and then determine any amendments that may be required.

In some cases – especially for large-scale regulatory changes – there may already be projects or programs of work in flight.

Understanding what these programs or projects are ensures that, where relevant, related changes can be allocated to them and incorporated into existing plans.



3 IMPLEMENT

IMPLEMENT

Key technology features to look for

- Built-in workflows that allow you to standardize the regulatory change management process, especially when it comes to creating action plans and assigning ownership
- In-system and email notifications, making it easy to ensure nothing gets missed
- Allocation of regulatory changes to specific regulatory programs or projects that are being managed using other software systems so you can still keep track of them in one place

How will you manage all the implementation activities required to become compliant with the regulatory change?

Once regulatory changes have been identified and the impacts understood, actions can be defined to implement any required modifications to governance, policies, processes, systems and controls to bring the organization into compliance.

Actions may vary from simple amendments to one paragraph of a policy to a whole new business process and associated technology systems.

Managing these different levels of implementation across the whole organization is a complex task, especially where there are dependencies between different projects and business units.

Being clear what the actions are for each change and who is responsible for completing them is absolutely essential, as is being able to track the status of each of these actions.



4 MONITOR

MONITOR

Key technology features to look for

- Regulatory change management dashboards which allow you to view changes, impacts, action plans and more all in one place
- Full audit trail for each regulatory notification, showing how and when the record was modified, as well as who has amended the record
- Sharing of reports in a variety of ways, including mobile-friendly distribution options

How do you ensure that you have implemented all the necessary regulatory changes?

A missed regulatory change or incomplete action can make the difference between compliance or a tough conversation with your regulator.

With such large volumes of regulatory alerts, each of which may require multiple actions to implement, you need to be able to keep track at every step of the process so you can report on the current status and escalate issues if necessary.

It is particularly important to be able to identify and report on high-impact and high-priority changes and activities, as these are likely to be at the top of the senior management agenda.

Having an up-to-date and holistic view of all the regulatory changes and associated activities allows speedier decision-making and reallocation of resources to where they are most needed.

How do you evidence compliance with new regulations to your regulatory authority?

Increasingly, regulators are seeking evidence of regulatory implementation, and therefore compliance, so being able to demonstrate the traceability of a regulatory alert all the way through to its implementation is now a necessity.

Firms that demonstrate 'defensible compliance' and the ability to manage regulatory change in a continuous way that is also operationally effective are likely to better meet regulator's expectations and consequently have smoother regulatory relationships overall.

Having a way to show a full audit trail from the moment a regulatory change is identified all the way through to its implementation is the clearest and easiest way of evidencing this compliance and provides a level of assurance to your supervisors that you have everything under control.



MAKING THE CASE FOR TECH-ENABLED RCM

With many competing priorities for investment, improving regulatory change management processes may not be at the top of the list when it comes to assigning budget. It can be difficult to convince senior management that automating RCM will reap financial rewards. The following benefits should help you to make the case for technology-enabled regulatory change management in your organization.

PROCESS EFFICIENCY

- Automating RCM removes the reliance on manual processes, such as emails and spreadsheets
- All information related to regulatory change management is stored in one place
- Reduces time (and therefore cost) allocated to tracking regulatory changes as they are automatically notified
- Compliance analysts can focus on more important tasks such as determining impacts, regulatory interpretation and action plans for implementation
- Management can also be “by exception,” allowing senior managers to hone in on the things that really matter

REDUCING RISK

- Manual processes are prone to human error which increases the risk of missing something vital - a technology solution significantly reduces the risk of a regulatory change slipping through the net
- Multiple versions of regulatory change trackers may exist so there is no single source of the truth. This can result in difficult conversations with both senior management and external stakeholders, including regulators. Using technology can eliminate this, with a single system acting as the golden source of all information and data relating to regulatory change management
- Regulatory changes can easily be prioritized based on their impact, giving a firm the ability to assign resources to implementation using a risk-based approach



IMPROVING ACCOUNTABILITY AND TRANSPARENCY

- By assigning ownership and responsibility for regulatory changes, technology solutions can help to ensure there is full accountability for each change
- Use of dashboards and analytics clearly show where there are accountability gaps, which can be escalated to senior management for resolution
- Full audit trails are also available, giving managers a complete picture of what has happened with each regulatory change

Ultimately, using technology to manage regulatory change will save firms time and money. Compliance teams are relieved of tedious manual processes and know exactly what is on the horizon so they are on the front foot for planning and execution. Senior Management can also clearly see how they need to prioritize and co-ordinate compliance investment in areas of strategic importance and better meet regulatory deadlines. And the whole firm will benefit from being clear about the impacts and potential opportunities associated with regulatory change and being able to prove compliance, accountability and traceability to their regulators.



HOW SHOULD I GET STARTED?

To enable you to build a successful business case for implementing a regulatory change management system, there are five key questions that you need to answer. If you do the research to answer these questions comprehensively, you will be more likely to convince your leaders that investment in an RCM solution should take priority over the funding of other projects.

1. WHAT ARE YOU TRYING TO ACCOMPLISH?

Be clear about the problems that an RCM solution will help to solve. What parts of the RCM process are particularly challenging right now? How will the new solution help to deal with these issues?

2. HOW MUCH DOES IT COST?

Research the costs of the new solution – not just the license costs over a period of time but also any upfront professional services costs that are required as part of the initial implementation.

3. HAVE YOU ACTUALLY SEEN IT WORKING?

Do your homework. Request demos from a selection of vendors with an RCM solution. Ask your peers in other organizations what products they are using for RCM. Attend webinars and events to find out more information. All this will allow you to be sure that the solution does what you need it to do.

4. WHAT ISSUES COULD HAVING AN RCM SOLUTION IN PLACE HAVE PREVENTED?

Are there any ‘near misses’ within your organization? Have any changes been missed in the past that were just caught in time? Have the regulators raised any issues about your firm’s management of regulatory change? Are there any other internal problems with RCM that can help you to make your case?

5. WHEN WILL THE SOLUTION BEGIN TO DELIVER PAYBACK?

How long after go-live will your firm begin to see the benefits? Will there be a difference, for example, in the timing of risk-reducing benefits in comparison to efficiency and cost savings?



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Conclusion

Regulatory change shows no sign of slowing down. In some domains, such as Environmental, Social and Governance and the Crypto space, it is even accelerating. Keeping up with the pace of regulatory change has always been a challenge, but today, with the growing volume and variety of regulation, RCM is more difficult than ever.

At the same time, differences in size, operating models, geographic footprints, and business lines mean that a 'one size fits all' solution is unlikely to be successful. Instead, you need to think about your requirements for each of the core building blocks of RCM – identifying regulatory changes, understanding their impact, implementing the necessary changes and monitoring the progress of that implementation – and select technology that can best support your organization's unique characteristics.

At SAI360, we understand that flexibility is key to an effective RCM solution and we have built our platform for managing regulatory change with this in mind. SAI360 combines augmented regulatory content and intuitive workflow management in one powerful solution so you can confidently assure your board and regulators of your proactive approach to regulatory change.





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ABOUT SAI360

SAI360 is a leading provider of Risk, Learning, EHS, and Sustainability software. Our cloud-first SAI360 platform contains flexible, scalable, and configurable modules for a better vantage point on risk management. Our unified approach to risk management is what sets us apart, helping organizations across the globe manage risk, create trust, and achieve business resilience for over 25 years.

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