

# THE REGTECH TAKEOVER

**Digitisation is constantly presenting the financial industry with new challenges. One of these is the adherence to new or changing laws, rules and regulations, primarily designed to prevent fraud and data misuse as well as to identify risks. To that end, enormous amounts of information need to be gathered, monitored and reported on. Regulatory technology (RegTech) helps financial companies to deal with the requirements.**

Not that long ago, financial services providers were able to handle their data manually. Indeed, depending on the nature and size of their business, some of them are still doing exactly that, at least partly. However, rising data volumes (think of “big data”) and ever-increasing regulation on a national and international level have been forcing a lot of those corporates to put more and more resources into preparing, editing and analysing the information.

***On the one hand***, regulators have been aggravating both density and degree of detail of the information required straight-line with what they have been learning is technically possible for the institutions to deliver.

***On the other hand***, and unlike in former eras, they haven’t been considerate of existing IT architectures, internal processes or data available at a reporting entity’s level where they just insisted on receiving certain data points. Obtaining reference data or counterparty data when reporting transactions to NCAs (national competent authorities) or trade data sets to trade repositories form just one, exemplary area for such ultimate requirements.

**Either way, this has been causing tremendous costs and has led to the emergence of the hybrid neologism “RegTech” (regulatory technology) describing a rapidly growing industry that basically develops IT solutions for regulatory monitoring, reporting and compliance purposes.**

By now, there is a diverse range of internationally acting RegTech firms offering their services or software to the financial industry. Usually these firms are specialised in specific areas such as data collection and storage, data management and processing, preparation of regulatory reports, audit trailing, identification of insider trading or credit card fraud. That means, the solutions a RegTech firm provides might not be relevant for every financial company. Then again, some financial companies commission multiple RegTech firms or applications in order to ensure that all requirements are met.

Certainly, enhancing transparency and consistency as well as standardising regulatory processes by using RegTech come at a price. However high this price may turn out to be, though, it will be over-compensated by the cost of failing to comply with relevant regulation (in some cases by many times since the catalogue of infringements and the fines attached to each of them has grown in lockstep with the regulatory requirements).

What’s more, when regulatory requirements change or are being expanded, firms employing RegTech solutions can usually adapt much faster to publication or reporting obligations emanating from these changes than those who don’t. And, of course, RegTech’s analytic tools enable companies to utilise existing data sets for additional purposes at any time. In a nutshell, the more obsolescent IT architectures and processes have become, the higher the surplus value will be for a company to employ RegTech solutions.

In contrast, enterprises that started up just recently were born into an era of digitalisation and permanent regulatory change conferring on them the advantage of being able to make use of the latest industry standard and align processes to governance frameworks entirely different from just a few years ago. As a Germany-based trading venue that was launched in autumn 2019, Spectrum Markets may well serve as a prototypical example. It was built on an ultra-modern IT infrastructure and, authorised and **supervised by BaFin**, operates as a **pan-European platform** in compliance with all relevant regulation – and despite regulatory harmonisation efforts it is fair to say that without the use of dedicated technology, the passporting and standardisation of Spectrum’s documentation, products and back office processes would have meant an impediment big enough to question the very successful business model. Thus breaking free from traditions, Spectrum has become able to provide a **more accessible** and **cost-efficient** way to **trade securitised derivatives** for financial institutions and their retail investors. The venue’s range of **highly liquid indices**, currency pairs and **commodities** can be **traded 24 hours, 5 days a week**.

**We would love to have a conversation with you on how our set up and services can benefit your retail clients. Get in touch today!**

Please don’t hesitate to get in touch if you wish to receive further detail.

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