REGULATION AND GROWTH

IFAC GLOBAL REGULATORY SURVEY

September 2015
“There is the danger that the crisis will result or has resulted in excessive politicization of regulatory issues in a quest to ensure that someone is seen to be responsible for the crisis.”

“Conflicting regulations with political biases create new issues”
- IFAC Global Regulatory Survey respondent

“I suspect we’re in a period of a sort of artificial calm where things seem much calmer on the surface but there are these very significant risks and tensions that are building up both in financial systems and the international monetary systems.”
- Jose Vinals, International Monetary Fund, May 2015

“We would regularly feel that regulations are missing key areas of risk and focusing on areas which are over regulated. In addition we regularly come across various regulatory bodies with conflicting approaches.”
- IFAC Global Regulatory Survey respondent

“The most likely explanation for much of the split that we observe between the performance of large and small businesses is the cumulative impact of the new regulations and related policy actions that have been taken since the crisis.”
- Goldman Sachs, Global Markets Institute, *The two-speed economy*, April 2015

“Regulation will ultimately kill first world entrepreneurship culture. There needs to be less regulation but more principles based responsibility on business and business leaders.”
- IFAC Global Regulatory Survey respondent
IFAC Global Regulatory Survey

September 2015

The IFAC Global Regulatory Survey voices the perspectives of 313 accounting, finance, and business professionals around the world, in a diverse range of sectors, and provides an important gauge of the state of regulation and its impacts on the global economy.

Good regulation is essential to the fairness, efficiency, and effectiveness of economies and making it work as well as it can is a never-ending mission. While regulation has been studied in myriad different ways, this study seeks to take a broad view—looking at how the entire body of regulations faced by organizations is impacting their opportunities and incentives.

The results highlight a mounting set of issues in the regulatory landscape. Respondents indicate that the impact of regulation has become much more significant over the past five years and, going forward, is expected to become even more significant. These impacts are felt widely, both in terms of the cost of doing business and on opportunities to innovate and grow.

The study underscores the immense complexity of current regulations. The results suggest that the regulatory approach across different regions is quite variable, and that there is a clear need for regulators to collaborate more effectively.

Eight years after the start of the financial crisis, global economic discourse continues to be dominated by the urgent need for genuine, sustained economic growth. The IFAC Global Regulatory Survey results should be a serious wakeup call for us to examine the impact of regulation, including the large amount of regulation and reform introduced since the crisis.

Fayez Choudhury
Chief Executive Officer, IFAC

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<th>Urgent questions concerning regulation’s impact</th>
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<td>How does regulation impact cost of doing business?</td>
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<td>• A clear majority of respondents indicated regulation has a significant or very significant impact on their organization’s cost of doing business. This impact is perceived to have increased substantially in the past five years, and is expected to continue to do so over the coming five years. In an economic environment where growth is a central concern worldwide, understanding how these effects are being felt “at ground level” is essential.</td>
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<td>How does regulatory complexity impact risk and collaboration?</td>
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<td>• Respondents clearly indicated that the regulations impacting their organizations are very complex. Discerning how this complexity affects the ability of all key players in the economy to foresee emerging risks, and the fluid, nimble collaboration necessary to address them as they arise, is crucial. Understanding how complexity impacts businesses, financial market participants, regulators and professionals is equally relevant.</td>
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<td>What are the impacts of regulation on innovation and growth?</td>
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<td>• Respondents indicated that regulation has a significant impact on their organizations’ opportunities to grow and innovate. Some respondents’ comments point to a “demoralizing” effect, “killing entrepreneurship” where regulation appears out of step with the realities and challenges of operating in modern economies. The current global economic climate depends on innovation, and understanding how regulation affects incentives for innovation is vital.</td>
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<td>What is missing?</td>
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<td>• Some respondents’ comments indicate that they are investing attention, time, and funds to comply with regulations aimed at prior issues—which may be distracting from, and limiting resources allocated to, anticipating and responding to future issues. Some also suggest that organizations and managers often believe that implementing regulation and compliance measures actually mitigates risks, whether or not this is the case.</td>
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REGULATION IS IMPACTING ORGANIZATIONS’ ABILITY TO INNOVATE AND GROW

80% of respondents said regulation has a significant or very significant impact on their organization’s cost of doing business.

66% said it has a significant or very significant impact on their organization’s opportunity to grow.

63% said it has a significant or very significant impact on their organization’s opportunity to innovate.

79% of respondents said the regulation impacting their organization is complex or very complex.

“The problem is that legislatures are micromanaging government, not-for-profit, and business.”

“Introducing new regulations by civil servants who do not understand the operations and issues of day to day business operations are of little value and demoralizing.”

“[Regulation] has its place no doubt but it must be practical and take into account the relative ‘risk’ profile of organizations.”

“Regulation will ultimately kill first world entrepreneurship culture. There needs to be less regulation but more principles based responsibility on business and business leaders.”

“The regulatory burden seems to have been materially increased with no consideration of the cost to the real economy of industry & commerce, hence to society.”

“We would regularly feel that regulations are missing key areas of risk and focusing on areas which are over regulated.”

HOW COMPLEX IS THE REGULATION THAT IMPACTS YOUR ORGANIZATION?

HOW SIGNIFICANT IS THE REGULATION THAT IMPACTS YOUR ORGANIZATIONS…

- Cost of doing business?
- Opportunity to innovate?
- Opportunity to grow?

- Not Applicable
- Not significant
- Neutral
- Significant
- Very significant
- Very complex
- Not applicable
REGULATION’S IMPACT IS GROWING—AND WILL CONTINUE TO GROW

83% of respondents said the impact of regulation on their organization is more or much more significant compared to five years ago.

“Regulations are far too complex and growing too fast.”

“As the impact of regulation grows and grows, the more harmful effects of ‘regulation without accountability’ become more and more noticeable, more and more obvious. It’s time that changed.”

“Our profession is now highly over-regulated and politicians still seem not satisfied—I am afraid the profession will face much more regulation in the near future.”

“There appears to be more duplication in regulation, with standards setters failing to align policies and processes, despite an overall commitment to reducing red tape by government.”

GOING FORWARD FIVE YEARS, HOW MUCH MORE OR LESS SIGNIFICANT DO YOU EXPECT THE IMPACT OF REGULATION TO BE FOR YOUR ORGANIZATION OVERALL?

Comparing to five years ago, how much more or less significant is the impact of regulation for your organization overall?

- Much less significant: 1.0%
- Less significant: 2.2%
- Neutral: 11.8%
- More significant: 48.9%
- Much more significant: 35.5%
- Not applicable: 0.6%

83% of respondents said the impact of regulation on their organization is more or much more significant compared to five years ago.
36% of respondents said the approach to regulation between different regions in which their organization operates is not consistent or not at all consistent, while 30% called it consistent or very consistent; 25% took a neutral view.

“Some regulators work well together but it’s not the same for all regulators.”

“Regulation is evolving at different rates between jurisdictions.”

“Conflicting regulations with political biases create new issues.”

HOW EFFECTIVELY DO DIFFERENT REGULATORS COLLABORATE WITH EACH OTHER?

48% of respondents said that different regulators collaborate with each other not effectively or not effectively at all, while 20% cited effective or very effective collaboration; 32% were neutral.

“There are instances where local jurisdictions have a set of regulations prescribing differently to global regulations.”

“We need to review the regulatory agenda to have a more consistent and aligned framework. Currently, the approach is often piecemeal in nature and contradictory at times.”

“More effective communication to ensure alternative voices are heard.”
The IFAC Global Regulatory Survey seeks to examine the impact of regulation from the perspective of organizations. The survey was distributed through major international accountancy, financial services, and business networks, and completed by 313 respondents working in accounting, financial services, and a wide range of other industry and commercial sectors during July and August 2015. Respondents’ organizations included small and medium entities (1 to 499 employees), large entities (500 to 9,999) and very large entities (10,000+ employees), operating mainly in Europe and Asia, as well as North America, Central and South America/Caribbean, Australia/New Zealand, the Middle East, and Africa.

**WHAT IS THE APPROXIMATE SIZE OF YOUR ORGANIZATION (NUMBER OF EMPLOYEES)?**

- Not applicable | 0.6%
- 1-4 |
- 5-9 |
- 10-19 |
- 20-99 | 24.0%
- 100-499 | 19.8%
- 500-9,999 | 21.1%
- 10,000+ | 10.2%
- 12.2% 12.2%
- 23.6% 5.8% 3.8%

**WHAT SECTOR DO YOU WORK IN?**

- Accounting 52.1%
- Consulting and professional services | 5.1%
- Communications, media and entertainment | 2.9%
- Manufacturing, materials and distribution | 8.0%
- Healthcare, pharmaceuticals and biotechnology | 1.6%
- Real estate and construction | 2.2%
- Financial services and insurance | 12.1%
- Education | 4.2%
- Other | 4.5%
- Non-profit | 2.9%
- Government / Military | 1.9%
- Utilities | 1.6%
- Food service | 1.0%

**WHAT ARE THE MAIN REGION(S) YOUR ORGANIZATION OPERATES IN?**

- Europe | 25.7%
- Asia | 19.7%
- Middle East | 9.9%
- North America | 12.2%
- Central and South America/Caribbean | 12.0%
- Australia/New Zealand | 12.2%
- Africa | 8.5%
- Food service | 1.0%