

AHEAD

The Keys to Compliance: Navigating Regulations through a Data Governance Framework

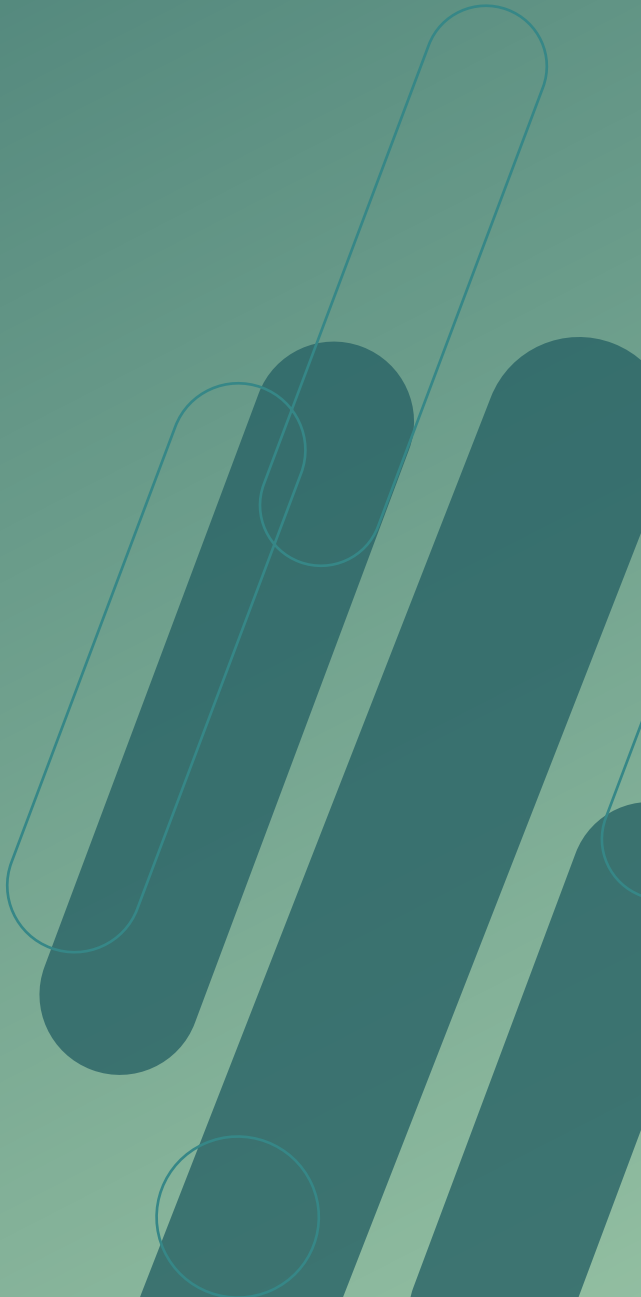
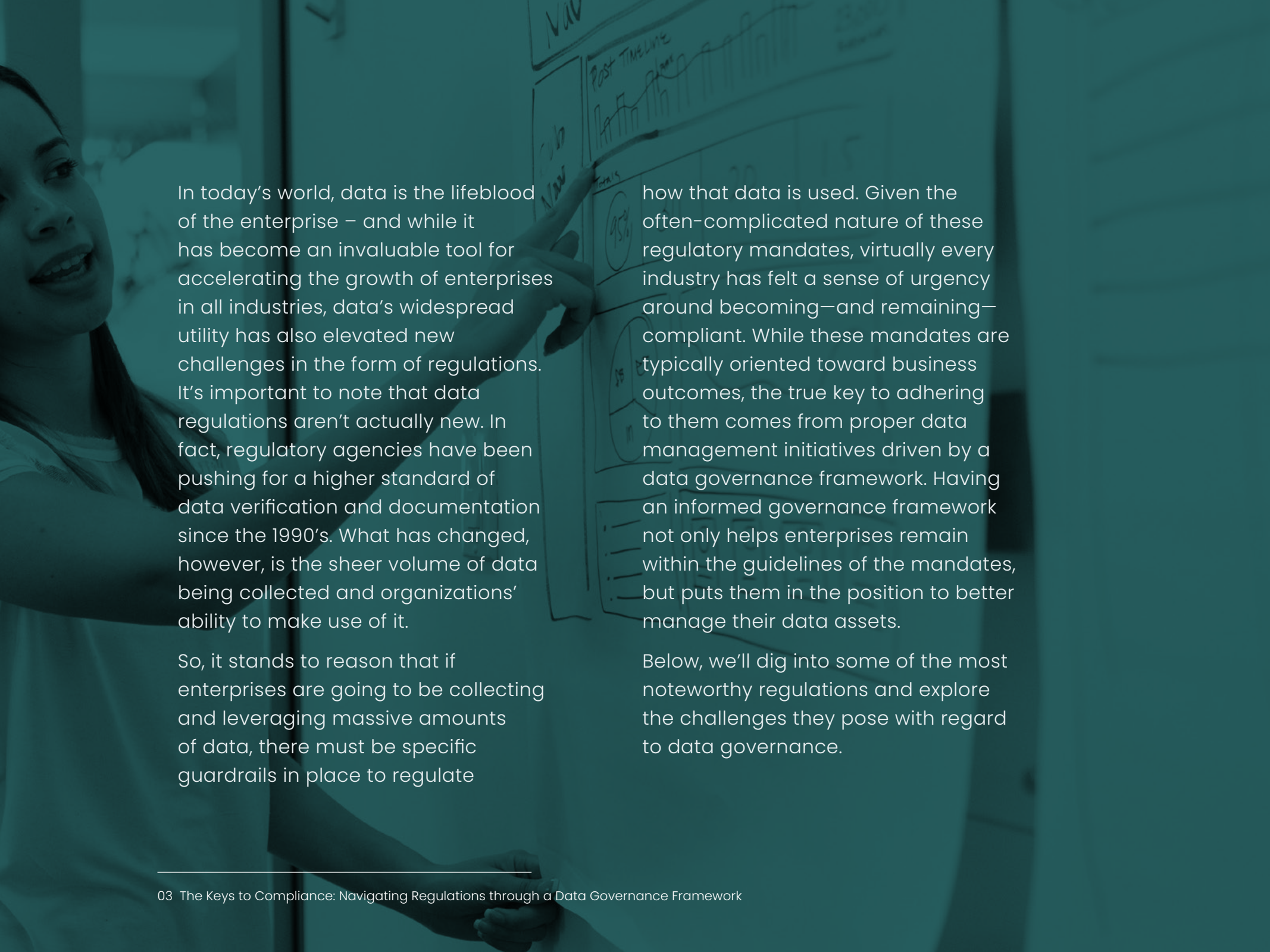


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A woman with dark hair, wearing a light-colored shirt, is pointing her right index finger at a whiteboard. The whiteboard contains handwritten notes and diagrams, including a line graph labeled 'Post-TIME LINE' and a pie chart. The entire image is overlaid with a semi-transparent teal color.

In today's world, data is the lifeblood of the enterprise – and while it has become an invaluable tool for accelerating the growth of enterprises in all industries, data's widespread utility has also elevated new challenges in the form of regulations. It's important to note that data regulations aren't actually new. In fact, regulatory agencies have been pushing for a higher standard of data verification and documentation since the 1990's. What has changed, however, is the sheer volume of data being collected and organizations' ability to make use of it.

So, it stands to reason that if enterprises are going to be collecting and leveraging massive amounts of data, there must be specific guardrails in place to regulate

how that data is used. Given the often-complicated nature of these regulatory mandates, virtually every industry has felt a sense of urgency around becoming—and remaining—compliant. While these mandates are typically oriented toward business outcomes, the true key to adhering to them comes from proper data management initiatives driven by a data governance framework. Having an informed governance framework not only helps enterprises remain within the guidelines of the mandates, but puts them in the position to better manage their data assets.

Below, we'll dig into some of the most noteworthy regulations and explore the challenges they pose with regard to data governance.

Foundational, Operational & Emerging Regulatory Focus Areas

While not all regulations cover the same things, many have been designed to ensure and enforce compliance across a spectrum of relevant data areas of focus. This spectrum, generally, can be boiled down to three primary classifications: **Foundational**, **Operational**, and **Emerging**.

FOUNDATIONAL

- Consumer Protection
- Capital & Liquidity
- Data Infrastructure & Technology Foundations
- Anti-money Laundering Efforts
- Core Risk Management

OPERATIONAL

- Ongoing Third-party Risk Management
- Cybersecurity & Operational Resiliency

EMERGING

- Digital Assets
- Long-term Environmental Stress Testing
- Data Management—Quality, Sourcing, Segmentation, & Forecasting

Regulations Requiring a Sound Data Governance Framework

In an effort to address some of the specific regulations that organizations must understand and adhere to, let's explore three in particular that specify data as a critical area of focus. This list is certainly not exhaustive, but the intent is to demonstrate the role of data management and governance in the realm of regulatory mandates:

1. Basel III – Guidelines for International Banking

Basel III regulations were introduced in 2009 to mitigate risk in the international banking sector. These guidelines, which remain in place today, primarily apply to risk-related subject areas – but in order to address those, data management and governance must play critical role in creating the foundation for mandate adherence. At a high level, the guidelines cover the following:

- **A Stronger Capital Base** – One of the foundational elements of the guidelines calls for stringent capital standards. From the perspective of data management and governance, it also translates into managed data quality standards and tougher standards on the verification of trusted data sources from internal/external systems and processes.
- **Risk Coverage** – Banks must enhance the quantification of counter-party credit risk, meaning that not only do they have to verify data sources and demonstrate transparency for themselves, but also for any counterparties they do business with. This includes the entire counter-party data ecosystem as well as the internal controls around it (e.g., sources, auditing, etc.).
- **Liquidity Management & Monitoring** – Banks must have the capability to monitor and measure their intraday liquidity AND report on the results accurately in a timely fashion. This can only be accomplished with a strong data governance framework that guarantees the quality of—and enables access to—the verifiable liquidity data. From a data point of view, this calls for data flow automation and controls around trusted data sources.

2. Sarbanes-Oxley Act – Financial Statement Transparency

The Sarbanes-Oxley Act (SOX) was enacted in 2002 to ensure transparency with regard to an organization's financial statements and business controls, requiring prompt, high-quality processing of accounting data. The data governance framework is critical here, as it catalogs and documents the necessary data assets, controls, measures, and detail policies to validate the quality, accuracy, and timeliness of financial disclosure data. The specific data requirements within SOX are actually very similar to what we described above in the Basel III regulations, with a focus on corporate finances as opposed to international banks.

3. USA Patriot Act – Data Tracking & Verification

The Patriot Act, signed into law in 2001, introduces more of a consumer protection focus. It expanded the existing regulations against fraud and money laundering, mandating much stronger verification and tracking processes for the data belonging to any corporate entity in the US. The governance framework is used here for documenting the identifiers and utilizing third-party services for verifications. This act applies at the individual transaction level, thus requiring some intense work from governance and audit teams.

Challenges Introduced by Regulatory Mandates

Having covered some of the common regulations and their requirements, let's take a brief look at the immediate data, technology, and modeling challenges posed by these types of mandates:



Data Challenges: Enhanced Cataloging & Reporting

1 Data Quality

In addition to the more typical challenges related to data quality, regulations require the documentation of details around acceptable error rates and validity ranges.

2 Data Lineage

Meeting regulations means that data teams must catalog the flow and transformation of critical data elements as well as metadata. The flow and transformation must include all systems of engagement and sources of truth for regulatory reporting.

3 Data Dictionary

Data teams must maintain clean business descriptions of all data elements to provide transparency to management and regulators.

4 Data Auditing

Organizations are required to identify, check, approve, and submit data assets in a timely fashion.

5 Data Certification

Owners and stewards need to monitor and certify their data based on criteria that is clearly defined and well-documented.

6 Data Relevance & Coverage

Data teams must maintain a catalog of data that is required at varying levels of granularity for various timeframes and data sources.

7 Data Integrity

Organizations are required to perform business checks at a series of control points to ensure that data remains uncompromised.

Technology Challenges: Managing the Data Ecosystem

1 Technical Architecture

Organizations must determine how much a technical infrastructure can be used versus manual effort when meeting the requirements of data regulations. The goal here is to streamline handoffs between systems as much as possible without compromising the data's transparency and traceability.

2 System Processing

The various systems of engagement, sources of truth, and back-end processing frameworks must be documented along with a wide range of controls and measures in order to meet regulatory requirements.

3 Data Capacity

The enterprise must track the growth of data volumes to gain a clear view of their ability to manage the data ecosystem now and in the future.

4 Data Aggregation

The various levels at which data is captured and processed need to be identified and managed on an ongoing basis to ensure compliance with regulations.

Modeling Challenges: Advanced Analytics & Governance

1 Rules Interpretation

Basel III compliance requires that rules be interpreted in a certain way, which needs to be documented and demonstrated during audits.

2 Qualification Readiness

The controls and measures required for regulatory approval must be documented to achieve compliance. These documented processes are incredibly valuable to both auditors and regulators and can be used to identify gaps in compliance more easily.

3 Gap Identification & Remediation

Organizations must establish processes to identify and remediate deficiencies related to regulation compliance. Given the fact that regulatory agencies often change or update their rules and requirements for data and reporting, this must be seen as an ongoing journey.

Pinpointing the Operational Impact

For most organizations, the biggest concerns when implementing regulation-driven changes are around data requirements. Whether the information is not comprehensive enough or simply does not exist, it is far too common for businesses to lack the documentation required to satisfy the needs of auditors and regulators. And with data sources spread throughout the enterprise, the documentation, cataloging, and maintenance of these assets can pose serious problems that impact operations in most—if not all—areas of the business.

This can become more complicated still, as separate interpretations of data fields or rules may lead to questionable or inaccurate results. In cases of M&A, the negative impact of misinterpretation is amplified even further. Take the case of Banks and Capital Markets, where there are always different interpretations of key subjects, such as risk policies, which can force organizations to question their data assets. Herein lies the importance of alignment and consistency. If the only way a bank can implement an advanced economic capital model is to use third-party data, how can it ensure that the external data is consistent



with its own risk policies? Further, if banks are encouraged to use the same source of data, would this lead to systemic risk or arbitrage opportunities?

For these questions—as well as similar inconsistencies in other industries—there is often no simple answer. And while a lack of clarity in this area is itself a huge issue, it can also negatively impact model calculations, projections, and reports, compounding the problem. So, with high stakes and no precise answer to this question, what can organizations do to better manage the challenges introduced by regulations?

LEARN THE RULES

- Study the regulations and build a complete understanding of the areas they impact.

DEFINE WITH CLARITY

- Develop clear data definitions that align to regulatory requirements.

HIRE THE RIGHT TALENT

- Build out robust data teams with experienced professionals and provide them the resources they need to be successful.

DON'T CUT CORNERS

- Spend the necessary time and effort to develop an effective data governance program.



Key Takeaway: Become More Data-Centric

In order to meet these regulations, a strong data management and governance framework is imperative. Taking a proactive approach to these governance initiatives not only helps maintain compliance and operational efficiency, but the resulting higher-quality data produces better and more accurate models that fuel other growth opportunities for the organization. In the process of complying with all current regulations, organizations can achieve 'total data integration' from top to bottom and, at the same time, break down silos to create a more collaborative, data-centric enterprise.

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