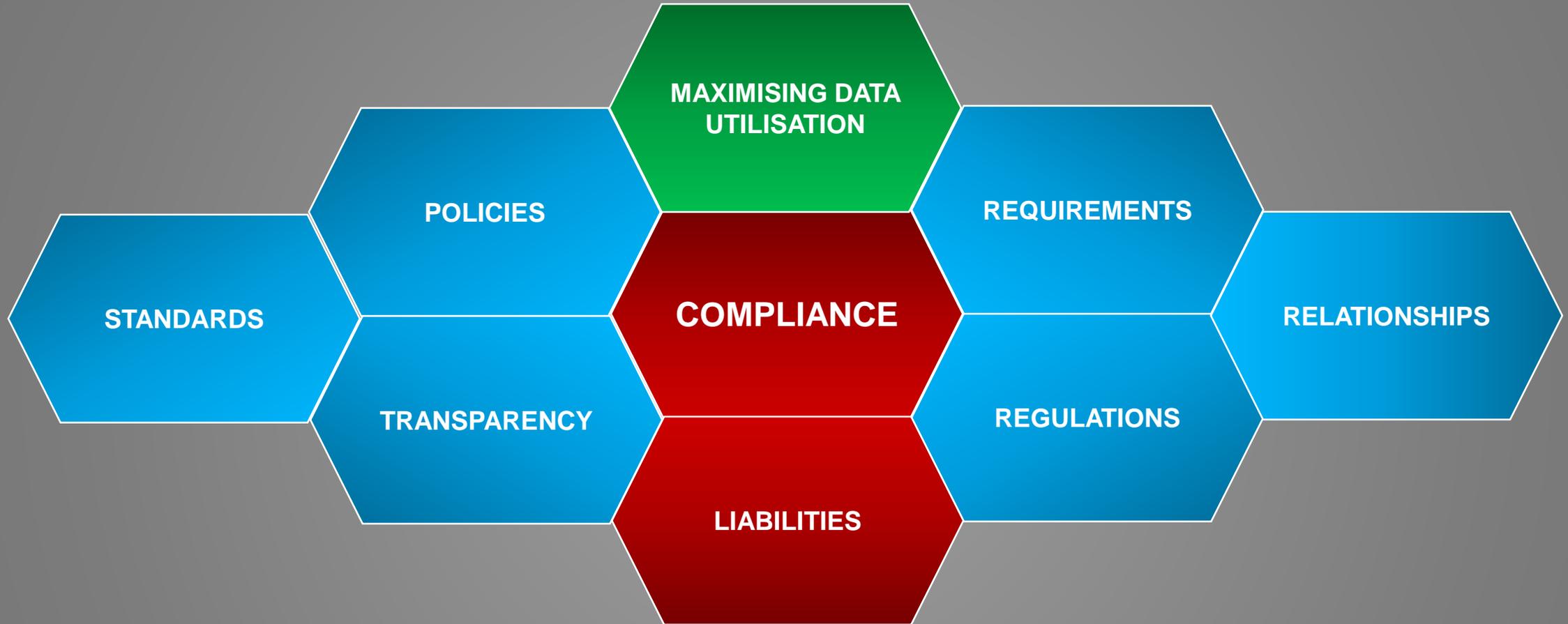


REGULATORY DATA ADVISORY



DataCompliance LLC

www.datacompliancellc.com
www.marketdata.guru

FUNDAMENTAL REVIEW OF THE TRADE BOOK

It is all about the Data



A diagram illustrating the data needs for a business. On the left is a black silhouette of a human head in profile, facing right, with a large white question mark inside. Above the head is a grey speech bubble with a red outline containing four white icons: a bottle of HP Sauce, a factory, a database cylinder, and a line graph with an upward-pointing arrow. Below the head and speech bubble is the text: **WANTED: DATA SOURCING, PRODUCTION, MODELS & STORAGE**



A diagram illustrating the resources required for a business. On the right is a black silhouette of a human head in profile, facing left, with a large white dollar sign inside. Above the head is a grey speech bubble with a red outline containing four white icons: three people, a stack of coins, a building, and a checklist with three checkmarks. Below the head and speech bubble is the text: **DOLLARS REQUIRED: RESOURCES, INVESTMENT, INFRASTRUCTURE & PROCESSES**

REGULATORY DATA

Regulators set the benchmarks

One of the biggest drivers of new data usage comes from the regulators. While it is rarely understood as such, IOSCO Principles on Financial Benchmarks, MiFID2, and FRTB are each built upon foundations of data sourcing and usage.

DataCompliance LLC advises our clients on how to meet the data and information requirements of new regulations. Our consultants were amongst the very first to highlight the impacts of data requirements of FRTB.

One core element is how regulators have shifted the data benchmarks in the past few years.

Before: Regulators would set a benchmark of what must standards must be met.

After: Regulators are now defining the criteria of **how** these benchmarks must be met.

This dramatically raises the bar on data sources' integrity and quality assurance which means resources, effort, and costs must be devoted to understanding what is required and how to meet the requirements.

This presentation analyses what must be done to meet the Fundamental Review of the Trading Book (FRTB) data requirements and how DataCompliance approaches the critical data issues.



OICU-IO스코



Basel Committee on Banking Supervision

BANK FOR INTERNATIONAL SETTLEMENTS

In May 2012 the Basle Committee released its first consultative paper to address real and perceived systemic weaknesses in the risk measurement of capital requirements by financial institutions by introducing greater transparency and consistency across jurisdictions by clarifying and defining boundaries (the heart of which is the Capital and Trading Books), analytical models with a standardised approach.

Unfortunately the impacts of FRTB and the work required to implement it appear to have been under-estimated. There is a strong chance that many financial institutions will not be ready. This lack of preparedness seems to have its roots in the resource black hole called MiFID2 compliance, insufficient communication and discussion across the financial communities, with critical industry and business sectors such as market data and technology yet to be brought onboard. Exacerbating the issue is the lack of FRTB expertise.

As we focus on the market data aspects the following points need to be carefully considered.

1 Market Data

- FRTB clearly defines the time data series required
- Back to 2007
- Places a premium on trading data and hard to get prices i.e. illiquid instruments

2 Reference Data

- Classification of market data parameters are required within a single system handling multiple sources
- A significant challenge

3 Data Quality

- If the data quality is inadequate there is the penalty of increased capital charges
- Why? Because the model outputs will increase the risk factor

4 Analytics & Models

- Combined with data quality represents a challenge
- Regulatory approval is required for models with all risk factors for all markets and asset classes.

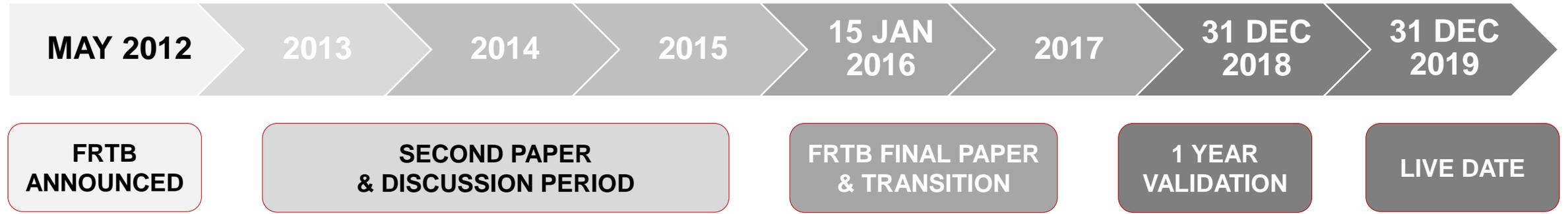
5 Technology

- Investment is required in infrastructure to ingest, manipulate, manage, re-distribute and store the increased volumes of data FRTB generates
- FRTB will be a significant generator of data outputs

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Milestones

DataCompliance LLC



**FRTB
ANNOUNCED**

**SECOND PAPER
& DISCUSSION PERIOD**

**FRTB FINAL PAPER
& TRANSITION**

**1 YEAR
VALIDATION**

LIVE DATE

8 CRITICAL FEATURES DRIVING THE DATA REQUIREMENTS OF FRTB

1 Daylight

Clearer daylight between the trading book and banking book creating transparency within banks' risk management practices, and reducing the incentives for regulatory arbitrage

2 Shortfall

The proposals involve a shift in the measure of risk from value-at-risk to expected shortfall. This is changes the calculation from evaluating risk to valuing prospective loss

3 Horizons

Incorporation of the risk of market illiquidity, through the introduction of 'liquidity horizons' in the market risk metric, and additional risk tools for trading desks with exposure to illiquid, complex products

4 Sensitivity

Increased risk sensitivity to act as a fall back to internal models. Places additional emphasis on the quality, and source, of data consumed

5 Model Based

Revised internal models-based approach, with more rigorous model approval processes, and more consistent identification and capitalisation of material risk factors

6 Evidence

Hedging and diversification recognition will also be based on empirical evidence that such practices are effective during periods of stress

7 Transparency

Strengthened relationship between the standardised and the models-based approaches
Transparency creates a level playing field when comparing different financial institutions

8 Mandatory Approach

This is two approaches requiring for all banks (1) mandatory calculation of the standardised approach, and (2) mandatory public disclosure of standardised capital charges on a desk-by-desk basis

FRTB is following a regulatory trend of imposing requirements by defining 'how' a standard needs to be met, not just 'what' that standard is. This promotes an emphasis on quality and quantity in order to access the data required to meet these standards.

The Impacts:

1. A substantial increase in market data consumption, as well as market data generation needed to comply with FRTB.
2. Substantial investments in sourcing data, quality assurance and technical infrastructure to manage the data.

This places an emphasis on appropriate due diligence when assessing the market data requirements to be compliant. Risk factors must be based on data from at least 24 representative transactions in a given year, with a maximum of one month between two consecutive trades.

1 Capital Requirements

- Rubbish In/Rubbish Out
- Poor data will lead to higher capital requirements, therefore cost is the inevitable result of sourcing the wrong data because it will inhibit the ability to run efficient risk-weighted assets (RWAs) calculations

2 Data Sourcing

Premium is being placed on Market data in terms of:

1. Quality
2. Sufficiency/Quantity
3. Real & Derived from observable transactions
4. Consistency
5. Frequency

3 Data Accessibility

1. A dramatic increase in the number of calculations for models
2. Greater need for efficient data processes from ingest to output and distribution
3. Technology infrastructure needs to be in place to deliver outputs

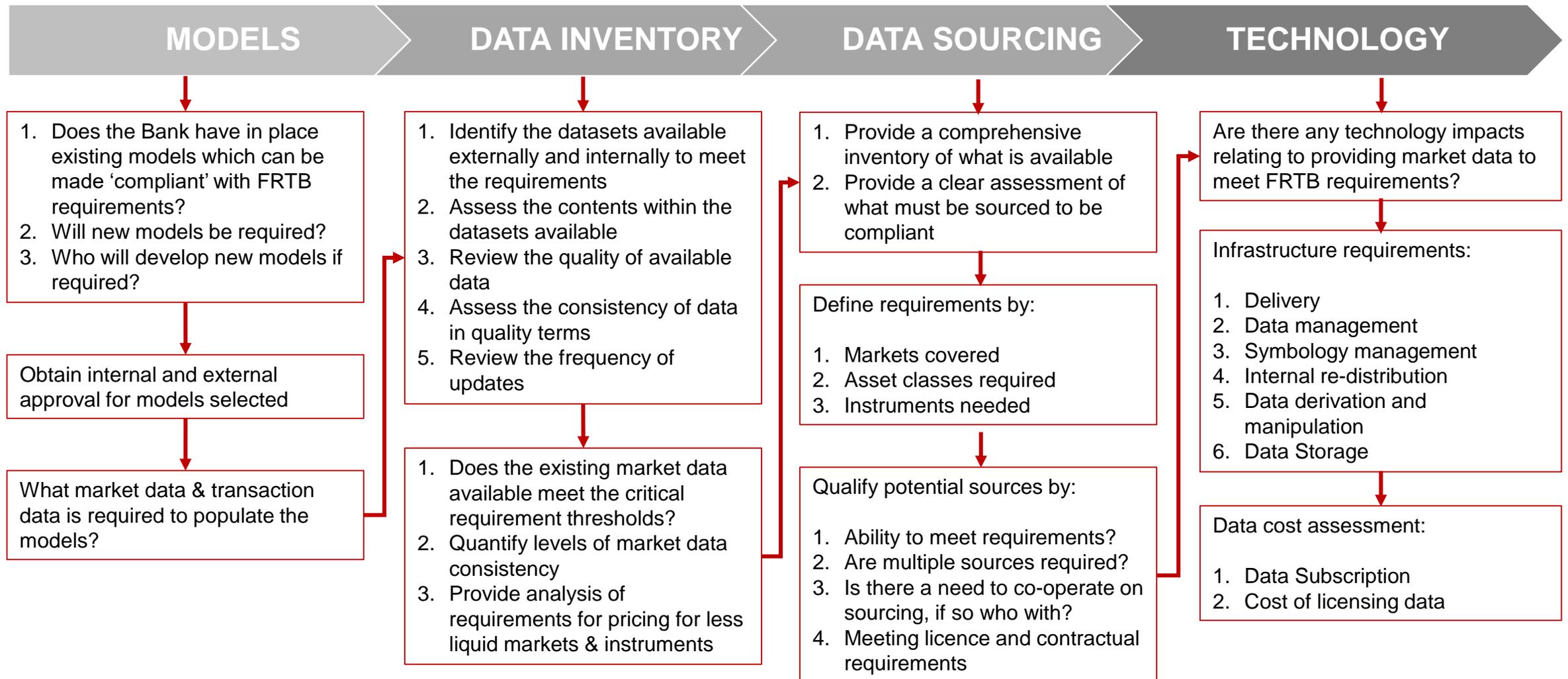
4 Audit Trail

1. Audit trails must be in place for internal reporting and regulatory requirements
2. Data bottlenecks, the wrong data, and/or missing data generates significant risk

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Questions & Parameters

Banks must understand and address fundamental data requirements within approved regulatory frameworks and pre-set parameters. These include:



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Find out more about us

DataCompliance LLC

David Toomey-Wilson and Keiren Harris inaugurated **DataCompliance LLC** as an innovative advisory and management consultancy focusing on the ever complex world of licensing data usage and sourcing quality data.

DataCompliance advises participants across all financial markets on how to effectively validate, change and profit from data resources, leverage information and market data benefiting their businesses direct to the bottom line through the effective use of their IPRs and ensure ongoing compliance and risk mitigation.

Expert innovation is the key driver in approach and delivery, all built on continuously proven track records.

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