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THE YEAR-END

2015

REGULATORY UPHEAVAL

INDUSTRY FACES PRESSURE FROM RULES, REGULATIONS

CMBS FACES HEADWINDS

MARKET TURNS UGLY, IMPACTING 2015 ISSUANCE

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well as new capital requirements for bank-related trading desks and possibly real-time trade reporting dissemination.

• The SEC and the Financial Industry Regulatory Authority may finalize a set of margin rules that would apply to **GSE multifamily deals** that would require broker-dealers to collect initial and ongoing margin against advance-purchase arrangements.

In sum, the whole-loan and CMBS markets will feel the greater weight of regulation starting this year, with full implementation late in the decade or early next with some, but not substantial, legislative fixes. While an EB-5 renewal will assist in maintaining valuations, it will not, in and of itself, counteract the market changing forces of new regulation. ■

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Optimizing Data Quality for Regulatory Compliance

By Kenneth Segal and Ozgur Kan

In 2015, data quality remained a major stumbling block that many banks faced when generating their regulatory reporting packages. Banks are generating more and more data, both in response to regulators' requirements and for financial modeling purposes.

This massive data accumulation has required banks to maintain centralized repositories that capture data from a myriad of internal systems and other repositories. Invariably, as data is captured and aggregated, inconsistencies and inaccuracies arise that can materially impact the integrity of macro reporting provided to bank stakeholders and regulators.

An effective data management exercise should start with a gap analysis that identifies the data that needs to be either collected or validated. It is important to note that the granularity of data depends on business lines, underlying collateral, associated risks and reporting requirements.

The next step would be to ensure accuracy and completeness of the data as it is being populated and validated. In our experience, the gap in historical data is often the biggest issue that banks face. With a large-scale collection of data, the solution is often akin to "data dumpster diving," that is, manually digging through loan files, inputting data and ensuring accuracy. Validation and reconciliation of data is critically important. While the goal is to automate the process eventually, the starting point often is manual, requiring a large-scale effort on the part of the bank.

Lastly, after the data is harvested, the bank needs to embark on a system-wide integration of data, combining its technical and informational infrastructure into its risk and finance functions. The goal is to integrate regulatory reporting into the overall risk management and capital planning processes.

A good data management program should encompass:

• Thorough review of data requirements.

• Generating data files and integrated platform by consolidating data from various sources.

• Ensuring accuracy of data through multiple edit checks, while eliminating duplication.

• Fixing errors and omissions, often at a granular level, by reviewing historical and physical files.

• Enabling the institution to gain greater insight into risk data defects and key compliance indicators, as well as to achieve greater transparency in data across business lines.

Beyond cleaning up data, banks should also have effective model risk-management practices in place, consistent with existing supervisory guidance (for instance, FRB SR11-7/ OCC 2011-12.) The growing use of quantitative models in supervision increases concerns over model risk, which, while impossible to eliminate, must be managed.

The effective management of such risk should incorporate:

• Implementation of robust processes around model development.

• A sound model governance structure.

• An independent model validation program.

Banks today realize that data quality, data aggregation and data validation are not ad-hoc exercises that are done only for the benefit of regulators. There are wide-ranging implications on collateral management, planning, and ultimately, assessing the risk tied to systemically important institutions.

Despite the realization, the challenges in achieving this ideal are obvious: there are operational challenges, data/ IT challenges and challenges in governance—all of which impede the process. It remains the common belief that regulatory requirements are not expected to soften in the foreseeable future. Firms should be aware of the near- and long-term implications of the increased requirements and expectations on the part of regulators, and accordingly, make improvements in their process management, data management and systems infrastructure.

While the degree of improvements needed would depend on the diversity of a bank's product base and its organizational complexities, addressing the issues early empowers a bank to achieve a more sustainable framework that is conducive to regulatory expectations and internal requirements. ■

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