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WHITE PAPER

# Governance, Risk and Compliance (GRC) - IT perspective



## Introduction

Current regulatory and economic conditions have created a need for financial services firms to accurately scale required levels of regulatory compliance and economic capital to support business strategy and risk appetite.

New regulations such as FATCA and BASEL III are coming into force to:

- Monitor and manage transparency
- Enable robust and comprehensive risk management

- Ensure regulatory compliance
- Promote efficient governance for multiple business units across multiple geographies

Addressing programs individually through silo compliance systems for each jurisdiction does not provide an enterprise-wide view and results in process replication, data inconsistencies and technology complexity along with an increase in cost, user dissatisfaction and time to market.

### Demand for transparency

- Inefficiencies in the compliance effort have to be eliminated by standardization in process and compliance management systems.
- Improving transparency is essential for regaining trust in the financial sector.

### Need for an enterprise-wide risk management system

- Due to a siloed approach, firms are facing difficulties in aggregating data. This complicates gaining an enterprise-wide view of risk.
- A fragmented approach to risk creates a false sense of security.

### Enhancement in global compliance capabilities

- Financial firms with a global presence are required to meet global as well as local compliance standards.
- Multiple compliance policies, procedures and governance structures are resulting in decreased productivity and increased costs.
- Integration of globally consolidated compliance systems with a deep analysis of distributed compliance models is the need of the hour.

## MAJOR REGULATIONS IN THIS SPACE

### FATCA

Foreign Account Tax Compliance Act (FATCA) is a US legislation to prevent tax evasion by US citizens through the use of offshore accounts.

- Requires Foreign Financial Institutions (FFIs) to register with US Internal Revenue Service (IRS) and report information about US account holders
- Requires Non-Financial Foreign Entities (NFFEs) to disclose the identity of their US owners to the IRS. FATCA imposes a penalty of 30% with holding tax on payments made to non-participating parties

### EMIR

EMIR (European Market Infrastructure Regulation) has introduced new requirements that minimize risks in Over The Counter (OTC) derivatives.

- Requires all standardized OTC derivatives to be cleared through Clearing Counterparties
- Contains provisions related to the confirmation process, collateral mechanisms, independent valuation and reporting of OTC transactions to trade repositories.

### AIFMD

The AIFMD (Alternative Investment Fund Managers Directive) seeks to put a common regulatory framework around Non-Undertakings for Collective Investment in Transferable Securities (Non-UCTIS) investment funds.

- Scope includes hedge funds, private equity and real estate funds, collectively known as Alternative Investment Funds (AIFs)
- Will be introduced from July 22, 2013

### Basel – III

Basel III is part of the continuous effort made by the Basel Committee on Banking Supervision to enhance the banking regulatory framework. A focus on Basel III is to foster greater resilience at the individual bank level in order to reduce the risk of system wide shocks.

- BASEL III regulation was formulated as the existing Basel II regulations were not enough to contain financial crisis. It focusses on strengthening the global banking capital and set in new liquidity rules.
- The proposed enhancement scope will include enhancing existing technology infrastructure and will impact several IT systems of the organization such as - Analytics, Risk Management, Collateral Management, Data Management, Data Reconciliation, and Reporting.

## An approach to Governance, Risk and Compliance (GRC)

The approach to Governance, Risk and Compliance should be directed towards key business needs:

- Enabling financial firms to aggregate their proprietary and discretionary securities' holdings across multiple business units in accordance with the specific provisions of each regulation / act.
- Helping to gain true exposures relating to risk correlation.

- Providing complete transparency so that risks can be effectively managed at the right time.

The overall framework can be depicted as a set of processes that attempt to build a complete view of the landscape and help build out a roadmap of initiatives that incrementally and comprehensively address the challenges. These include quick wins as well as large, more complex long-term needs.



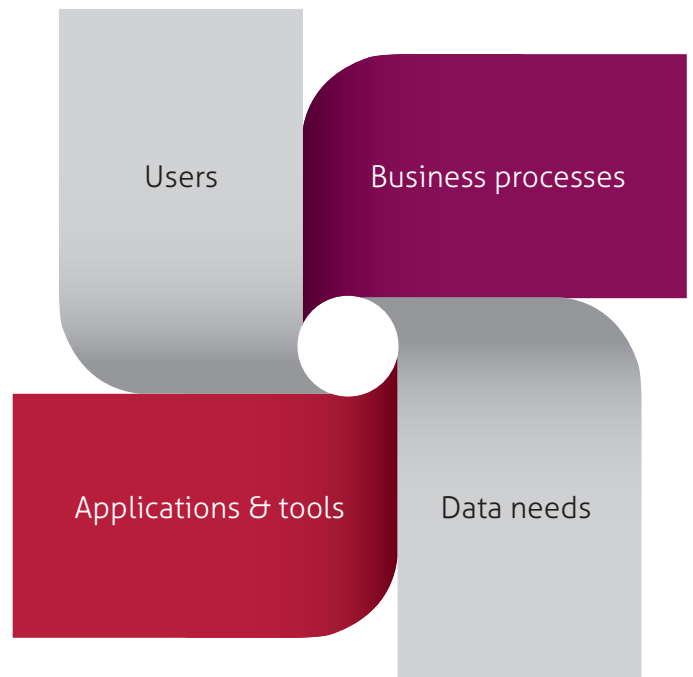
### Business process mapping and impact assessment

While short-term solutions are often needed to meet immediate needs, it is equally important to define clear long-term strategies to support the changes to the business processes.

Prerequisites to define a good list of functional and technical requirements for critical compliance programs are:

- Create a mapping of user stakeholders
- Discovery of business processes with insights into how they are changing or should change
- Understanding data needs (missing, incorrect and duplicate) with updated latencies
- Deriving a matrix of technology applications and tools

Business process scenarios range from simple to complex. Examples include identifying US / international accounts, linking of multiple accounts, making available differences in international regulations, withholding of tax, customer onboarding processes and adhering to liquidity and capital requirements. Each of these processes may require aggregated data access, low latency of data updates, workflows, user notifications, exception reporting mechanisms and alternate business process flows. An impact assessment exercise helps identify and consolidate these gaps they help define functional requirements with associated priorities.



### Data strategy & technology mitigations

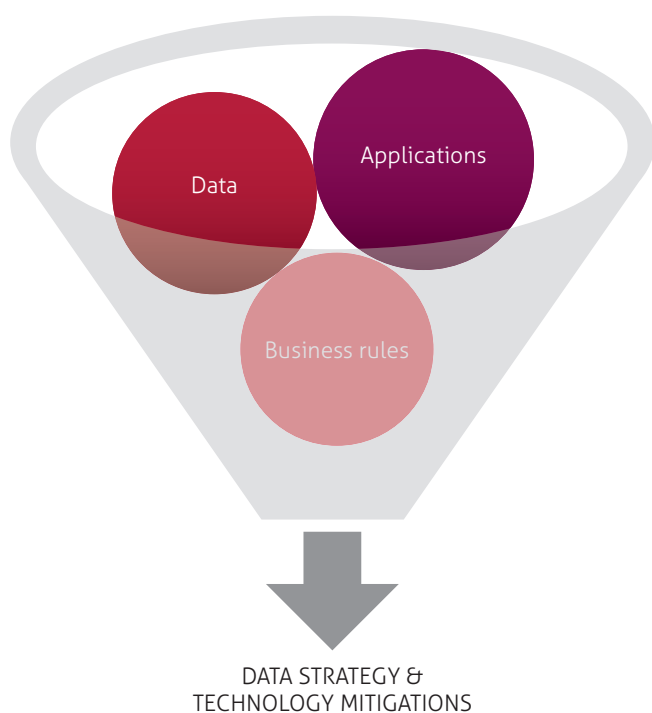
This step builds on the overall discovery and impact assessment to drill down into sources of data, their integration, potential consolidation and management. Key activities must include:

- Identifying the data sources and their integration topology to collect the relevant data such as foreign exchange, equities, commodities, yield curve, positions, trades, collateral and counterparty exposure and so on.

- Analysis of application and source systems such as collateral management systems and loss & recovery systems to evaluate operation risk, credit risk and liquidity risk.
- Reference data to conduct risk assessment and gain additional transparency.

Two important outputs from this step should be a data strategy defined to capitalize on the data assets. This could include Master data management to centralize accurate data for processes, policies and governance. The other key output is a technology mitigations / update plan which may include development of an enterprise data warehouse and related processes to integrate data from disparate sources. Such consolidation approaches, although built incrementally over time, help in generation of trending reports while enabling analytical and operational analysis. As part of the data strategy, Big Data technologies should also be evaluated to enable cost effective and responsive analysis and reporting. The goal should be to provide agile and comprehensive governance and compliance, transparent analysis and develop enterprise risk management model, which provides executive oversight of risk.

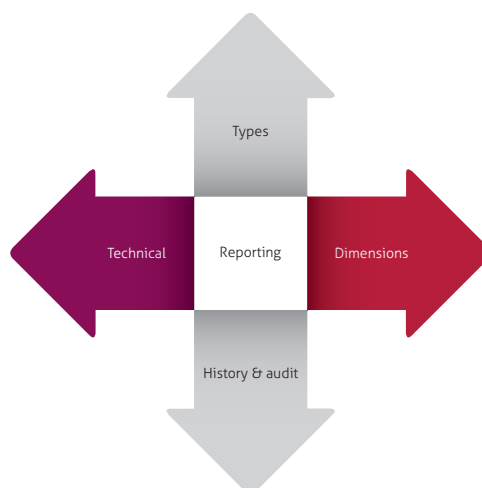
Finally, collaboration tools for information exchange and insights generation form the presentation aspect of the data strategy. These include both structured as well as unstructured information. Collaboration is a complex topic and the needs vary by the stakeholder type and priorities.



## Comprehensive reporting

These include advanced visualization for business decisions after transforming corporate data into BI systems for Governance, Risk and Compliance. Well-defined dashboards for identifying trends and monitoring key events feed into the overall reporting requirements. The primary dimensions for thinking about reporting include:

- Types
  - Report generation of CAR, LCR, NSFR, Leverage, CVA, and WWR (BASEL III)
  - CRD IV compliance for EU
  - Solutions will generate report for each FATCA reportable account, as per the requirements of IRS or the home country tax authority
  - Primary economic term, (real-time) trade reporting (EMIR)
  - Valuation reports
  - Others
- Dimensions
  - Reports will vary for custodian account, depository account or account for investment or insurance
  - Reports may also vary by region, time period, sub customer segment and user groups
- History & audit
  - Recording of audit trails for exception monitoring and security
  - Easy retrieval of historical information for review and trend analysis
- Technical
  - Interaction between systems and people. Multiple formats such as XML, XBRL, MS Excel must be considered to meet varying stakeholder needs time latency such as real-time or periodic reporting
  - Merging or consolidation of various data sources with (back-updates-please check) as required





## Conclusion

The emerging regulatory and compliance landscape is both a challenge and an opportunity. Reviewing the requirements from the top down and then addressing the needs as per a well-articulated roadmap will prevent scenarios where emergency decision-making is needed in favor of sub-optimal solutions. This will in turn enable competitive advantages in terms of reputation, customer satisfaction and higher ROI on investments.

Data strategy, and technical applications and tools should be driven from a functional analysis of business processes and goals. A comprehensive approach does not take too long to define, but engages stakeholders while meeting the most pressing needs.

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### About Mindtree's Capital Markets Center Of Excellence (MCoE)

Financial firms have benefited from our solutions, unique business model, global delivery models and CoEs . These have enabled them to become more competitive.

- Ready solution framework for implementing GRC regulations to bring down overall analysis and design effort by 30%
- A team of business analysts well versed with the regulations aiding to reduce time required for analyzing and specifying business requirements
- Expert domain consultants and technical resources ready to be deployed in projects
- Reusable data dictionary saving approximately 50% of effort when compared to building a data model from scratch
- Ready-to-use templates of reports meant for regulator and operations users reducing the time spent on developing out-of-the-box reports
- Consistent and standard terminology and content aids collaboration between business analysts and technical developers.

### About Mindtree

Mindtree is a global information technology solutions company with revenues of over USD 400 million. Our team of 11,500+ experts engineer meaningful technology solutions to help businesses and societies flourish. We enable our customers to achieve competitive advantage through flexible and global delivery models, agile methodologies and expert frameworks.