

Navigating regulatory compliance with unified data platforms in capital markets

Whitepaper

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Time for unified data platforms

In the ever-evolving landscape of capital markets, regulatory compliance and data governance have become increasingly critical for financial institutions (FIs).

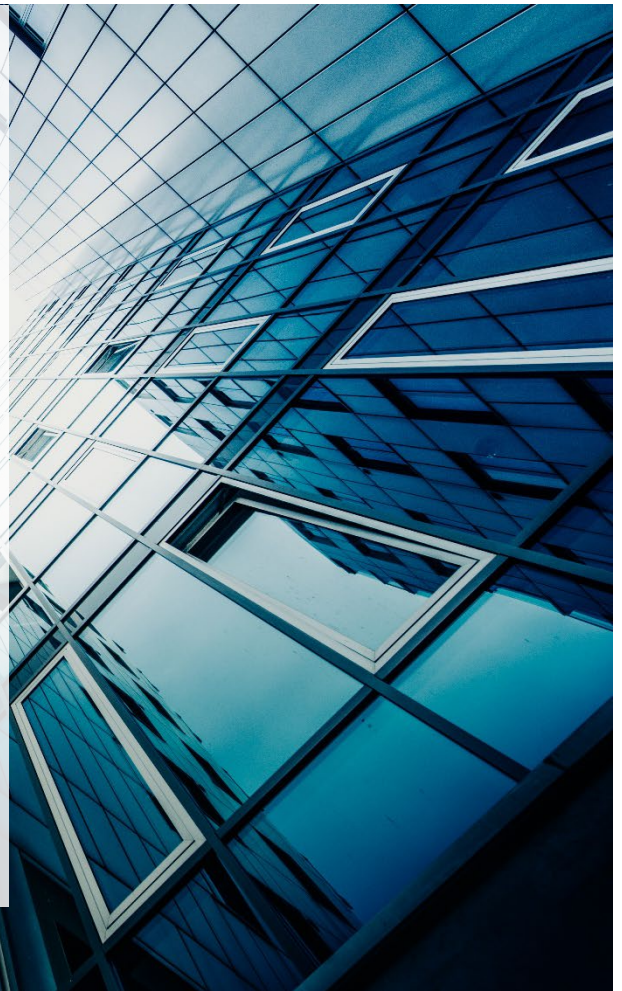
This whitepaper explores the role of unified data platforms in addressing these challenges, enabling organizations to effectively manage their data, ensure compliance and mitigate risks.

The capital markets domain is characterized by a complex web of regulations and stringent data governance requirements. FIs must navigate this landscape, while managing vast amounts of data from various sources.

Traditional data management systems often fall short in meeting these demands, leading to inefficiencies, increased risks and potential regulatory penalties.

Enter unified data platforms, a comprehensive solution that streamlines data management, ensures regulatory compliance, and enhances data governance.

But the landscape first:



Capital market regulations



To better understand the challenges faced by FIs, it is essential to comprehend the regulatory landscape in the capital markets.

Key long-standing regulations such as the European Union's General Data Protection Regulation (GDPR), the Markets in Financial Instruments Directive II (MiFID II) and the Basel III framework (i.e., BCBS 239 principles), as well as newly emerging regulations on artificial intelligence (AI) such as Canada's Bill C-27 and the EU's Artificial Intelligence Act all impose strict requirements on FIs, including reporting, risk management, transparency, and data protection¹.

To successfully traverse the regulatory challenges of the present and future, FIs should be adopting a robust data governance approach through a unified data platform.

The challenges next:

Plethora of hurdles



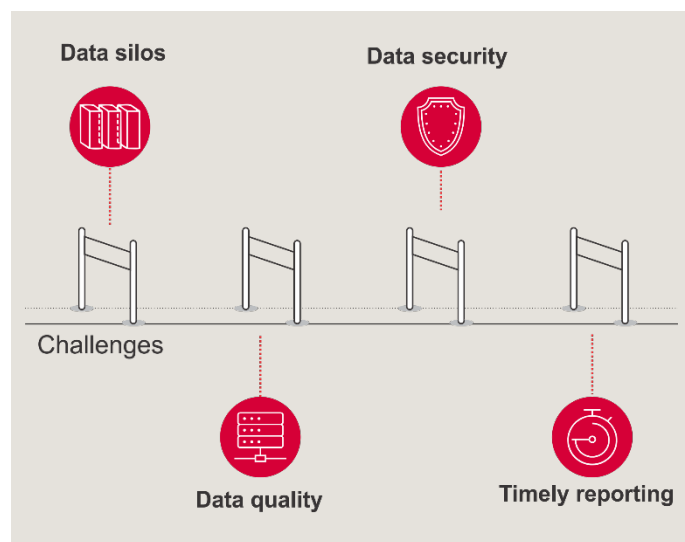
FIs encounter several challenges in ensuring regulatory compliance and robust data governance, including:

- **Data silos:** Disparate systems and data sources hinder a comprehensive view of the organization's data landscape, leading to inefficiencies and difficulties in data integration
- **Data quality:** Inaccurate, incomplete or inconsistent data can lead to incorrect reporting and decision-making. According to industry research, data quality issues cost FIs an estimated 15-25% of their operating revenue²
- **Data security:** Protecting sensitive data from unauthorized access and breaches is paramount in the capital markets domain. Cyberattacks and data breaches can result in reputational damage, financial losses and regulatory penalties. In 2021

alone, the financial industry experienced a 13-fold increase in cyberattacks compared with the previous year³

- **Timely reporting:** Meeting regulatory deadlines for reporting is crucial to avoid penalties and maintain a strong reputation. However, manual reporting processes and data fragmentation across systems often lead to delays and inaccuracies

Enter the killer app:



The potential of a unified data platform for addressing regulatory hurdles



Unified data platforms address these challenges by providing a single, integrated solution for data management, analytics and reporting. They offer benefits that empower FIs to navigate the regulatory landscape and achieve efficient data governance. Let's explore these benefits:

- **Centralized data management:** Unified data platforms consolidate data from various sources, eliminate data silos and provide a holistic view of the organization's data landscape. This enables FIs to gain valuable insights, identify patterns and make informed decisions
- **Improved data quality:** Data validation, cleansing and enrichment capabilities offered by unified data platforms ensure that data is accurate, complete and consistent. By implementing automated data quality checks, FIs can enhance reporting accuracy and regulatory compliance
- **Enhanced data security:** Robust security features, including encryption, access controls and

audit trails protect sensitive data and help FIs maintain compliance with data protection regulations. Unified data platforms provide a comprehensive security framework that safeguards data throughout its lifecycle

- **Streamlined reporting:** Automated reporting tools and templates enable FIs to generate regulatory reports efficiently and accurately. By leveraging unified data platforms, organizations can significantly reduce the time and effort required for regulatory reporting, ensuring timely compliance

Moreover, unified data platforms can effectively address the challenges associated with cross-border data privacy. For FIs operating in a global context, data flows across jurisdictions must comply with various cross-border data transfer regulations. Unified data platforms provide the following capabilities to support cross-border data privacy:

- 1) **Data localization measures:** Offer the ability to define and enforce data residency requirements. This ensures that data is stored and processed in specific jurisdictions, aligning with the regulations and restrictions imposed by different countries. By implementing data localization measures, FIs can adhere to cross-border data transfer regulations and maintain compliance with regional data privacy laws.
- 2) **Transparent data governance controls:** Provide robust data governance frameworks that enable organizations to establish and enforce data privacy policies. These platforms allow FIs to define access controls, permissions and consent mechanisms for cross-border data transfers. Transparent data governance controls ensure that data is handled in accordance with applicable laws and regulations, reducing the risk of non-compliance and potential penalties.
- 3) **Incorporate privacy-enhancing technologies:** Through the use of anonymization and pseudonymization techniques, these technologies help protect personal data during cross-border data transfers by minimizing the risk of re-identification. By leveraging privacy-enhancing technologies, FIs can ensure privacy and confidentiality of data as it moves across borders.

By leveraging the capabilities of unified data platforms to address cross-border data privacy challenges, FIs can navigate the complexities of data transfer across jurisdictions. This helps them comply with cross-border

data transfer rules, protect the privacy rights of individuals and remain strongly committed to data privacy and protection

offering enhanced data-driven services and maintaining a reputation for regulatory excellence

Benefits of unified data platforms



Unified data platforms offer numerous benefits that can revolutionize data management and regulatory compliance in capital markets. Some key benefits include:

- **Cost savings:** FIs can reduce costs associated with data integration, maintenance of multiple systems and regulatory penalties resulting from non-compliance
- **Enhanced efficiency:** Unified data platforms streamline data processes, automate reporting and enable self-service analytics, allowing organizations to make faster and more informed decisions
- **Improved risk management:** By consolidating data and providing comprehensive risk analysis capabilities, unified data platforms enable proactive risk management and better regulatory compliance
- **Competitive advantage:** FIs that leverage unified data platforms can differentiate themselves by

Implementing a unified data platform for regulatory compliance and data governance



To successfully implement a unified data platform, FIs should consider the following steps:

- Assess current data management systems and identify gaps in regulatory compliance and data governance
- Define the requirements and objectives for the unified data platform, including data sources, analytics capabilities and reporting needs
- Evaluate potential vendors and select a platform that meets the organization's requirements and aligns with its strategic goals
- Develop a phased implementation plan, starting with high-priority areas and gradually expanding to cover the entire organization
- Monitor the platform's performance and continuously refine processes to ensure ongoing compliance and effective data governance

Conclusion

In the complex world of capital markets, regulatory compliance and data governance are of paramount importance. Unified data platforms offer a comprehensive solution that enables FIs to effectively manage their data, ensure compliance and mitigate risks. By adopting these platforms, organizations can navigate the regulatory landscape with confidence and harness the power of data to drive growth and success.

Annexure

1) Regulation descriptions:

GDPR: Since its implementation in 2018, GDPR has had a significant impact on data privacy and protection. It requires FIs to obtain explicit consent from individuals for data processing, ensure the right to data erasure (the "right to be forgotten") and implement robust data security measures. Non-compliance can result in severe penalties, with fines of up to €20 million or 4% of global annual turnover, whichever is higher.

MiFID II: MiFID II is aimed at improving transparency and investor protection in financial markets. It requires FIs to record and store all communications related to financial transactions, including phone calls, emails and electronic messages. Failure to comply with MiFID II can result in reputational damage and regulatory sanctions.

Basel III: Basel III sets capital adequacy and liquidity requirements for FIs. It mandates the aggregation and reporting of large amounts of data related to risk exposure, capital ratios and liquidity measures. Non-compliance with Basel III can lead to regulatory penalties and limitations on business activities.

Bill C-27: Canadian act that enacts the Consumer Privacy Protection Act, the Personal Information and Data Protection Tribunal Act and the Artificial Intelligence and Data Act, which sets new measures to regulate international and interprovincial trade and commerce in artificial intelligence systems. It also aims to establish common requirements for the design, development and use of artificial intelligence systems, including measures to mitigate risks of harm and biased output. (Source: *Intelligence and Data Act and to make consequential and related amendments to other Acts [justice.gc.ca]*).

The Artificial Intelligence (AI) Act: The world's first set of comprehensive rules to manage AI risk and promote uses of AI that align with EU values including human oversight, privacy and non-discrimination. This law assigns applications of AI into four levels of risk: i.) unacceptable risk; ii.) high-risk; iii.) limited risk; iv.) minimal or no risk. (Source: *EU Paves the Way for U.S. in the Regulation of A.I. | Foley & Lardner LLP*).

- 2) <https://www.datanami.com/2017/12/13/data-quality-declines-costs-soar>
- 3) <https://www.securitymagazine.com/articles/96128-banking-industry-sees-1318-increase-in-ransomware-attacks-in-2021>

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