Compliance is critical.

MEET FOUR GLOBAL MANDATES

Regulatory compliance has always played an important role in financial services firms. But in the aftermath of the 2008 crisis, it took on a new level of urgency.

This dramatic shift made it imperative for firms to embed regulatory awareness throughout the enterprise—from the front office understanding who they are doing business with, to the middle office managing risk and calculating capital adequacy, to operations making sure the firm has the right systems to manage compliance effectively.

Broadly speaking, global regulations have coalesced around four clear mandates: systemic risk reduction, capital adequacy and solvency, transparency and compliance. The underlying regulations, however, are increasingly complex, cross-jurisdictional and constantly changing. As a result, firms must assemble an unprecedented array of tools, processes and data to maintain compliance programs that are capable of interpreting and meeting all four mandates.

Some firms are accustomed to this heightened regulatory scrutiny. Others are still trying to catch up. But with regulators worldwide emphasizing greater accountability, firms in every part of the market need to take a more strategic, integrated approach to compliance.

This is what Bloomberg delivers. We collaborate with firms across the financial community to develop solutions that improve response time to regulatory requests, increase accuracy in reporting and achieve standardization to drive higher efficiency.

Systemic Risk Reduction
Ensuring that failure of a single entity does not bring down the whole system.

Capital Adequacy & Solvency
Reserving cash and/or liquid securities on balance sheets as a cushion during times of stress.

Transparency
Providing detailed clarity on trading activities and decisions to predict failures and avoid abuse.

Compliance
Leveling the playing field for all firms to ensure everyone follows the same rules.

Bloomberg provides high-quality data and innovative tools to help clients meet all four regulatory mandates at the enterprise level.
ASSESS RISK WITH HIGHER ACCURACY

A key risk associated with an interconnected financial system is the potential for the failure of any single entity to cause the failure of related entities. During times of severe market stress, these inherent interdependencies can lead to bank runs and rapid deleveraging, which could combine to bring about a system-wide shutdown. After the crisis, regulators began to focus on mitigating this risk on a national, regional and global scale.

REGULATORY OBJECTIVES

- Reduce counterparty risk by moving standardized OTC derivatives to a central clearing framework
- Discourage non-cleared derivatives by requiring higher reserved capital
- Use new liquidity requirements to reduce excessive reliance on short-term interbank funding to support longer-dated assets
- Subject systemically important financial institutions (SIFIs) to additional regulation

USE CASE:
COVERED FUNDS

As part of the Dodd-Frank Act (DFA), the Volcker Rule requires banks to divest ownership interest in so-called covered funds, which may include hedge funds, private equity funds, collateralized loan obligations (CLOs) and other structured products. Determining whether a fund is covered can be challenging. While the primary rule is straightforward, there are numerous exceptions. In most cases, making the right determination involves a manual review of prospectuses and deal documents, many of which are not readily available.

Bloomberg’s covered funds solution helps banks identify covered funds quickly and efficiently with minimal manual effort. We use new data fields to automatically extract pertinent details from securitization and CLO deal documents to identify covered funds as well as provide details about ownership structure, deal type, tranche and collateral. For top-tier banks, this solution helps eliminate manual review of prospectuses. It will be available through the Bloomberg Professional® service and as an enterprise data feed for reporting.
SOLUTIONS FOR SYSTEMIC RISK REDUCTION

Bloomberg provides a range of solutions to help firms meet execution, clearing and reporting requirements under the Dodd-Frank Act (DFA), European Market Infrastructure Regulation (EMIR), Markets in Financial Instruments Directive (MiFID) and other regulations. In addition, regulation-ready data and risk management tools available through the Bloomberg Professional® service and via an enterprise data feeds can help firms assess enterprise-wide risk at the portfolio and security levels.

BLOOMBERG FOR ENTERPRISE SOLUTIONS INCLUDE
- Reference Data – Legal entity data and LEI.
- BVAL Evaluated Pricing – Independent, transparent and defensible valuations of fixed income and derivatives instruments.

OTHER BLOOMBERG OFFERINGS
- Bloomberg Vault Trade Reconstruction – Provides fast retrieval and export of trade details correlated with relevant pre- and post-trade communications.
- Bloomberg SEF – A robust trading platform that provides efficient access to swaps regulated under Dodd-Frank and enables firms to seamlessly report to Swap Data Repositories.

USE CASE: LEI INTEGRATION

One cause of the financial crisis was an inadequate understanding of risk within and across multiple lines of businesses. The lack of transparent, accurate legal entity data prevented firms from connecting counterparties to their positions for proper risk aggregation.

Bloomberg’s legal entity data solution includes an extensive corporate structure file with granular entity data for more than three million public and private companies, sovereign governments, funds, government agencies and municipalities. This data seamlessly connects to the legal entity identifier (LEI), enabling compliance officers and risk managers to assess counterparty and concentration risk by connecting securities to issuers in order to easily identify the ultimate parent and gauge total exposure to specific entities, industries and markets.
It is imperative that banks and other institutions reserve enough capital and liquidity to withstand periods of market stress. However, tougher capital and liquidity standards can constrain their ability to generate revenue. Achieving a balance involves complex, data-intensive applications. Banks also must be prepared to aggregate data systematically for integration into risk engines and regulatory reporting processes.

**REGULATORY OBJECTIVES**

- Ensure banks focus on capital- and risk-weighted assets to reach mandated ratio level
- Reduce solvency risk in insurance through stricter capital requirements
- Emphasize in-house risk ratings for structured products over agency ratings
- Mandate annual stress tests to ensure banks have sufficient capital and liquidity
- Use the Liquidity Coverage Ratio (LCR) to make sure banks classify and hold high-quality liquid assets to deal with market stress and limit over-reliance on short-term wholesale funding

**USE CASE: HQLA**

The Liquidity Coverage Ratio (LCR) requires banks to hold an adequate amount of High-Quality Liquid Assets (HQLA) that can be converted easily and immediately into cash. Under Basel III, banks are required to demonstrate a daily LCR ratio greater than 100%. Calculating this ratio can be challenging. While the LCR framework divides assets into categories of eligibility, the assets in each one vary considerably according to jurisdictional guidelines.

The Bloomberg HQLA solution leverages industry-leading reference data and 24 HQLA-specific fields to help firms with liquidity coverage ratio calculations, central bank eligibility and regulatory reporting. It provides the data set required to define the universe of HQLA-eligible securities as well as a sophisticated rules engine to determine the applicable level of eligibility. These capabilities help firms achieve compliance faster with a smaller team.
SOLUTIONS FOR CAPITAL ADEQUACY & SOLVENCY

Firms that collaborate with Bloomberg gain access to comprehensive solutions for achieving efficient compliance with capital adequacy and solvency requirements.

BLOOMBERG FOR ENTERPRISE SOLUTIONS INCLUDE

• **Liquidity Assessment Tool (LQA)** helps firms measure liquidity consistently and reliably.

• **Prudent Valuation** – Part of our LQA tool, this solution provides the market uncertainty, close-out costs and concentrated position AVAs for client holdings.

• **HQLA Solution** – Helps firms determine HQLA eligibility for regulatory reporting.

• **SSFA Solution** – Automates risk-weights calculation for Basel III compliance.

• **Solvency II Solution** – Provides Reference Data and BVAL evaluated pricing to help firms meet pillar 1 and 3 requirements.

USE CASE: PRUDENT VALUATION

The European Banking Authority’s (EBA) latest Regulatory Technical Standards consultation paper has outlined a requirement for all EU banks with regard to the prudent valuation of fair-valued financial instruments. Stemming from the Capital Requirements Regulation (CRR), the EBA requires banks to hold capital buffers that reflect conservative market values at 90% confidence levels.

The approach to calculating the fair value of an instrument can vary significantly, even within the same financial institution. Often, there are valuation mismatches between Finance and Risk departments, as well as the valuations used in Independent Price Verification (IPV) and audit processes.

Bloomberg's LQA product uses unparalleled financial data, leveraging its market impact model and a powerful machine learning engine to consider a large number of relevant factors that can influence the liquidity of a particular security. This unique approach means that close out cost, market price uncertainty and time to liquidation can be estimated efficiently even for illiquid bonds with limited historical trading activity.

LQA can be used to bridge the gap between accountancy-driven fair values and risk and regulatory-driven valuation adjustments. The Prudent Valuation fields in LQA provide additional valuation adjustment (AVA) for close-out costs, market price uncertainty and concentrated positions, with customizable overrides to ensure that valuations can be aligned to the methodologies used in firms' IPV processes.
GENERATE DEFENSIBLE DATA EFFICIENTLY

Accepting transparency as a way of life is a significant change for many firms to make, but one that is essential for regulatory compliance. Transparency requirements increase the clarity of trading activities to help predict failures and detect abuse. These requirements are critical to regulatory reporting and accounting disclosures. Areas of emphasis include the valuation and fair value leveling of illiquid assets, the democratization of OTC derivatives trading, and monitoring and controlling substantial concentrations of risk.

REGULATORY OBJECTIVES
- Drive adoption of electronic trading venues, including swap execution facilities (SEFs) in the U.S. and multilateral trading facilities (MTFs) in Europe
- Create measures to prevent conflicts of interest in research commissions, asset valuations and benchmark management
- Require post-trade reporting of swaps to authorized data repositories
- Give regulators and the public access to transparent data to facilitate market monitoring
- Validate that details submitted in regulatory reports are sourced and processed correctly

USE CASE: FAIR VALUE HIERARCHY LEVELING

Firms that are subject to International Accounting Standards (IAS) or, in the U.S., Generally Accepted Accounting Principles (GAAP), must disclose assets in the fair value hierarchy. Firms must customize rules for determining whether assets should be classified as level 1, 2 or 3, then apply the rules consistently to produce defensible decisions. This creates a great deal of work, and in the event of an audit firms may have to check rules and leveling results by combing through a portfolio security by security.

The Bloomberg Fair Value Hierarchy Leveling tool allows firms to customize and store fair value leveling rules, make decisions consistently over time and saves considerable time and effort. It helps firms respond to the accounting requirements set forth by ASC 820 and IFRS 13 as they extend beyond the original fair value reporting standards FAS 157 and IAS 39. Plus, it aligns with independent evaluated prices from the Bloomberg Valuation Service (BVAL). In fact, both the FVHL tool and BVAL use identical underlying market data.
SOLUTIONS FOR TRANSPARENCY

To help firms deliver the transparency regulators, auditors and investors expect without overburdening internal teams, Bloomberg offers a variety of solutions designed to improve efficiency and accuracy in reporting.

BLOOMBERG FOR ENTERPRISE SOLUTIONS INCLUDE

- **BVAL Evaluated Pricing** – Offers 56 Regulatory Transparency Fields that expose the underlying market data used in BVAL pricing models.
- **Bloomberg PolarLake** – A complete enterprise data management (EDM) solution.

OTHER BLOOMBERG OFFERINGS

- **Bloomberg Professional service** – Offers tools for margin calculation and credit value analysis.

USE CASE: AIFMD

The Alternative Investment Fund Managers Directive (AIFMD) requires hedge funds, private equity funds and other funds to meet reporting obligations, each with its own challenges. Funds must perform extensive exposure analysis with respect to counterparties, markets and instruments. They need to classify assets in positions held and traded using specialized taxonomy. And they must provide value at risk (VaR) and market risk calculations.

The Bloomberg AIFMD solution helps firms streamline identification and exposure analysis using a combination of industry-standard terms and conditions, high-quality pricing and derived data, as well as AIFMD-specific taxonomy and entity data that are mapped to market standard identifiers such as the LEI. Portfolio-level valuation and market risk capabilities make it easy for funds to calculate net asset value and market risk values for AIFMD reports.
Compliance

PROVE PROPER CONDUCT

Compliance ensures that all firms are following the same set of rules. Ultimately, the core of compliance is maintaining tight controls and a detailed audit trail about the firm’s clients and transactions throughout all stages of the trade lifecycle. Compliance also requires firms to monitor pre- and post-trade communication to detect and react to inappropriate behavior or interactions with new clients that have not been properly and thoroughly vetted.

REGULATORY OBJECTIVES

- Improve surveillance systems as more staff are assigned to review exception reports
- Expect trade reconstruction with supporting communication within 72 hours of a request
- Require detailed information about client accounts as part of a broader effort to combat money laundering, terrorism and tax evasion

USE CASE: CUSTOMER DUE DILIGENCE

The customer due diligence mandate is designed to make sure firms understand exactly who they conduct business with and what types of transactions are permitted, even as corporate structures and permissions change. The mandate is expressed in a number of requirements, including Know Your Customer (KYC), Anti-Money Laundering (AML), the Foreign Account Tax Compliance Act (FATCA), and many others. From initial onboarding to periodic remediation, due diligence involves a complex set of requirements informed by multiple regulations in different regions. Data requirements include details such as the legal name, domicile, country of incorporation and registrant data. They also include industry and regulatory classifications, such as the LEI. Collecting these details is complex and time-consuming and can delay time to trade.

Bloomberg legal entity data gives firms a head start on customer due diligence. When entities are entered into our database, our data experts must acquire many of the same details that regulators require. Using Bloomberg legal entity data as an initial resource helps streamline the process. It also helps clearly differentiate financial and nonfinancial counterparties for regulators, delineate all the lines of business a counterparty is associated with and develop a fuller, more complete picture of the client’s makeup.
SOLUTIONS FOR COMPLIANCE

Bloomberg Reference Data Services provides the critical data firms need to meet due diligence and additional compliance requirements.

BLOOMBERG FOR ENTERPRISE REFERENCE DATA
OFFERINGS INCLUDE

• Legal Entity Data with LEI integration
• Sanctions Data
• Corporate Structures
• Corporate Actions
• Ontology and Provenance data to ensure compliance with BCBS-239

OTHER BLOOMBERG OFFERINGS

• Bloomberg Vault – Provides fast retrieval and export of trade details to meet trade reconstruction requests. Bloomberg also offers tools that buy-side and sell-side firms can use to monitor pre- and post-trade compliance in a single, convenient workspace.

USE CASE: UNSTRUCTURED DATA

Firms are struggling with rapidly growing volumes of unstructured data. Managing this data complicates compliance and surveillance processes. To solve these challenges, Bloomberg Vault delivers robust information governance and information analytics for all electronic communications, including email, IM, social media, files and documents, mobile, voice, Bloomberg messages, and Bloomberg IB chat. Bloomberg Vault provides an all-in-one solution for surveillance, eDiscovery, trade reconstruction and archiving.
Meet new & emerging demands.

**ADDRESS EVERY CHALLENGE**

Solutions designed to address every aspect of the modern regulatory environment put firms in a stronger position to handle current and future regulations, no matter how complex. The Bloomberg portfolio of regulatory solutions represents a concerted and long-standing effort to help firms meet broad global mandates as well as comply with individual requirements as quickly and efficiently as possible. This comprehensive suite of solutions is powered by the industry’s most accurate, reliable and high-quality data.

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Enterprise is everything.

BLOOMBERG FOR ENTERPRISE

To succeed today, financial institutions must respond to challenges that are not addressed by traditional approaches. They require world-class solutions that integrate people, processes, information and technology for the front office, middle office and operations. Bloomberg partners with these institutions to protect and capitalize on data, manage risk, deliver transparency and control costs. Through enterprise-level expertise and three decades of deep industry experience, Bloomberg creates real value through the use of innovative technology that turns data into a strategic asset.

Industry-Leading Service

Bloomberg has more than 30 years of customer service expertise and support is included in every solution. Clients can expect responsive, coordinated service from a dedicated team as well as 24/7 access to experts who can assist with any issue or concern.
TAKE THE NEXT STEP

To find out how Bloomberg for Enterprise can help you leverage data, insight and technology to make regulatory compliance a competitive differentiator, contact your regional sales representative and visit bloomberg.com/enterprise.

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