Risk has always been central to finance, and managing risk depends critically on information. In recent decades, derivative markets for parceling and shifting risks have burgeoned, while computational advances have increased the pace of trading. As evidenced by recent events, the need has never been greater for skills, systems, and methodologies to manage risk information in financial markets. Authored by leading figures in risk management and analysis, this handbook serves as a unique and comprehensive reference for the technical, operational, regulatory, and political issues in collecting, measuring, and managing financial data. It will appeal to a wide range of audiences, from financial industry practitioners and regulators responsible for implementing risk management systems, to system integrators and software firms helping to improve such systems.

Volume I examines the business and regulatory context that makes risk information so important. A vast set of quantitative techniques, internal risk measurement and governance processes, and supervisory reporting rules have grown up over time, all with important implications for modeling and managing risk information. Without an understanding of the broader forces at work, it is all too easy to get lost in the details.

Volume II sets out a detailed structural and operational framework for managing a financial risk data repository. As experience accumulates on managing modern risk systems, the knowledge base of practical lessons grows. Understanding these issues and leading practices may mean the difference between failed and successful implementations of risk systems.

Margarita S. Brose, a former Senior Counsel in the Division of Enforcement of the US Securities and Exchange Commission, has almost two decades of experience in the financial markets. After leaving the SEC and earning an MBA from The Wharton School, she spent ten years consulting to financial services companies, with a focus on risk and compliance, with IBM Business Consulting Services (and its predecessor, PricewaterhouseCoopers Consulting). In that role, her clients included leading global investment banks and money center banks, as well as GSEs. Brose has since served in Director positions at Fannie Mae and Barclays investment bank, in their Finance and Risk Management groups, respectively.

Mark D. Flood did his undergraduate work at Indiana University in Bloomington, where he majored in finance (B.S., 1982), and German and economics (B.A., 1983).
In 1990, he received his Ph.D. in finance from the Graduate School of Business at the University of North Carolina at Chapel Hill. He has worked as Visiting Scholar and Economist in the Research Department of the Federal Reserve Bank of St. Louis, an Assistant Professor of finance at Concordia University in Montreal, a Visiting Assistant Professor of Finance at the University of North Carolina at Charlotte, a Senior Financial Economist in the Division of Risk Management at the Office of Thrift Supervision, a Senior Financial Economist with the Federal Housing Finance Agency, and most recently as a Research Principal with the US Office of Financial Research in Washington, DC. His research interests include financial markets and institutions, systemic financial risk, financial data management, securities market microstructure, and bank market structure and regulatory policy. His research has appeared in a number of publications, including the Review of Financial Studies, the Annual Review of Financial Economics, the Journal of International Money and Finance, Quantitative Finance, and the St. Louis Fed’s Review.

Dilip Krishna is a Director with the Governance, Risk and Regulatory Consulting practice with a focus on risk architecture and information. He is involved in several regulatory initiatives such as stress testing and capital management implementations. He has 17 years of experience across a range of wholesale and retail banking products in banks across North America. Previously, Krishna was a partner with Teradata Corporation, leading its North-East Banking and Capital Markets consulting team. He worked with many large banks in the North-East to implement some of their largest data warehouse and data management programs. Krishna was also Director of Teradata’s Risk Management Center of Expertise in the Americas, responsible for working with many large financial institutions across the USA and Canada implementing Basel II and risk management solutions. In this role he was also active with Teradata’s Government Services team, helping to articulate the role of analytics in regulation and transparency, including being called upon to offer expert testimony to the US Congress. He has served as chief architect for Basel II at a major Canadian bank, and has implemented front-offices trading solutions in Canadian capital markets operations. Krishna is widely published in the area of risk information and risk architecture.

Bill Nichols has been at the intersection of technology and finance for 25 years. He co-founded and served as CEO of a research firm acquired by Thomson Financial in 1995, and spent the following seven years with Thomson. Subsequently, he spent three years in venture capital-related organizations, followed by consulting stints for major banks, asset management firms, and securities exchanges. He has participated as an expert in multiple ISO standards groups and is the former Convenor of the ISIN Standard for financial instruments. With Mark Flood, he co-chaired the Data Committee of the Committee to Establish the National Institute of Finance. Currently a Senior Advisor for Information Architecture and Innovation at the Office of Financial Research, he was previously Data Architect at Bridgewater Associates in their Data Research group.
HANDBOOK OF FINANCIAL DATA
AND RISK INFORMATION

Volume II
Software and Data

Edited by
MARGARITA S. BROSE
MARK D. FLOOD
DILIP KRISHNA

and
BILL NICHOLS
### Contents

<table>
<thead>
<tr>
<th>List of contributors</th>
<th>page viii</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
<td>xiii</td>
</tr>
</tbody>
</table>

### VOLUME II: SOFTWARE AND DATA

#### PART IV DATA OPERATIONS IN FINANCIAL INSTITUTIONS

1. Financial market participants  
   John Carroll and Jonathan Sparks  
   **7**

2. Functional model for financial data and risk information  
   Janine Forsythe  
   **33**

3. Financial institutions’ data requirements  
   Dianne Buonincontri and Nicholas Robson  
   **50**

   John Patrick Hunt, Richard Stanton and Nancy Wallace  
   **85**

### PART V DATA MANAGEMENT TECHNOLOGIES

5. Financial data interchange standards  
   Karla McKenna, Jim Northey and Bill Nichols  
   **138**

6. Data storage and processing  
   Dilip Krishna  
   **219**

7. The extracting, transforming and transmitting of data  
   Martijn Groot  
   **251**

8. The visual analysis of financial data  
   Victoria L. Lemieux, Brian Fisher and Thomas Dang  
   **279**
Contents

23. Metadata management 327
   Marc Alvarez

24. Data security and privacy 356
   Michael J. McCabe

PART VI IMPLEMENTATION OF DATA AND ANALYTICS PROGRAMS 381
   Dilip Krishna

25. Project implementation 387
   Margarita S. Brose and Dilip Krishna

26. Operations management 433
   Jim Blair

27. Data governance and data stewardship 464
   Deborah Stockdale

Index – Volume II 521
Contents

7. Capital markets data
   Martijn Groot
   271

8. Capital markets reference data
   Marc Alvarez
   303

9. Risk management data and information for improved insight
   Margarita S. Brose, Mark D. Flood and David M. Rowe
   328

PART III REGULATORY DATA
   Margarita S. Brose and Mark D. Flood
   381

10. A history of financial regulation in the USA from the beginning until today: 1789 to 2011
    Alejandro Komai and Gary Richardson
    385

11. Data for microprudential supervision of US banks
    Mark D. Flood, Simon Kwan and Irina S. Leonova
    426

12. Microprudential supervisory data in the USA: Securities and derivatives
    Margarita S. Brose and Jesse T. Weintraub
    490

13. Financial data and risk information needed for the European system of financial supervision
    Per Nymand-Andersen, Nicola Antoniou, Oliver Burkart and Jarl Kure
    520

14. Data needed for macroprudential policymaking
    Laura Kodres
    566

Index – Volume I
   593
Contributors

Marc Alvarez is a Senior Director with Interactive Data in New York responsible for Reference Data service infrastructure and enterprise data architecture. He is the author of *Market Data Explained: A Practical Guide to Global Capital Markets Information* (Elsevier, 2007) and an active industry commentator focusing on capital markets data content and management.

Nicola Antoniou is a Bank Expert at the European Banking Authority, where she specializes in policy and regulation for European cross-border banking supervision, in particular on the supervisory review and evaluation of bank risks. Nicola has previously worked at the UK Financial Services Authority focusing on international strategy and policy coordination.

Jim Blair is a Senior Consultant with Teradata, Inc. He is recognized globally for his experience in data warehouse development, implementation, and performance. He is dedicated to driving business value from analytical processing. Jim is an international speaker on data warehousing and a standing member of TDWI and the Society of Information Management.

Jefferson Braswell is the Founding Partner of Tahoe Blue Ltd. and has been active in the development of financial technology for over 30 years. He has delivered comprehensive risk management solutions to many of the world’s largest financial institutions. Recently, he has served as a lead coordinator of the G20 LEI Private Sector Preparatory Group.

Margarita S. Brose has 20 years of experience in financial services. She began her career as an attorney at the US Securities and Exchange Commission. After earning an MBA, she specialized in risk and compliance consulting with PwC and IBM. She has degrees from Barnard College, GW Law School and The Wharton School.

Dianne Buonincontri is a data manager with the Federal Reserve Bank of New York. She is responsible for a team of business and data analysts performing functional and data analysis and creating data quality policies, standards, and
processes. Dianne holds an executive MBA from Baruch College and has held previous roles in data management.

John Carroll is a well-known industry expert and experienced financial services operations and data manager currently working as a Managing Consultant at element22, a boutique advisory firm that specializes in data management within the financial services industry. John spent 22 years at Merrill Lynch, where he was responsible for Data Solutions and Integrations.

Thomas Dang is a software/database developer working for the University of British Columbia. He holds a Masters in computer science, with a subspecialization in human computer interaction and has been actively involved with research on visual analytics. Thomas’s other active interests include data integration, high-density information displays, and interactive video.

Brian Fisher is Associate Professor of Interactive Arts and Technology and Cognitive Science at Simon Fraser University and Associate Director of the Media and Graphics Interdisciplinary Centre at the University of British Columbia. His research explores the cognitive science of interaction with visual information systems (visual analytics).

Mark D. Flood is a graduate of Indiana University in Bloomington (B.S. in finance, and B.A. in German and economics). He earned his Ph.D. in finance from the University of North Carolina at Chapel Hill. He has taught finance and business at universities in the USA and Canada, and has been active in policy development and research publication as an economist in the risk management and research departments for a number of regulatory bodies.

Janine Forsythe is a Vice President at Goldman Sachs leading the technology teams that support the firm’s global insurance businesses. Janine has over 25 years in the financial services industry in line management roles and consulting services focused on a broad spectrum of clients and business functions including insurance, capital markets, and commercial banking.

Martijn Groot is an expert in financial data management and has worked in this space in product management roles from the investment banking, financial technology, and services perspectives. His specialties include instrument, entity and analytics data services. Martijn is the author of *Managing Financial Information in the Trade Lifecycle* (Elsevier, 2008).

John Patrick Hunt is Acting Professor of Law at UC Davis School of Law (King Hall). His scholarly interests include credit rating agencies and securitization.

Alan King is a Research Staff Member at the IBM Thomas J. Watson Research Center in Yorktown Heights, New York, in the Industry Solutions Research Department with a focus on the Financial Services Sector. Alan’s research focus is on analytics middleware technology in risk management processes and applications of stochastic programming.
List of contributors

Laura Kodres, an Assistant Director in the IMF’s Monetary and Capital Markets Department, oversees the analytical chapters of its Global Financial Stability Report, which frequently focuses on systemic risk monitoring and mitigation techniques. Her research centers on financial contagion and interactions of macroeconomic and financial policy issues.

Alejandro Komai is a Ph.D. candidate at the University of California, Irvine. His research interests include economic history and monetary theory.

Dilip Krishna is a Director with Deloitte & Touche LLP, focusing on risk and regulatory analytics, data and architecture in financial services firms. He has previously held roles implementing large data warehouse and data management programs for initiatives such as Basel II.

Jarl Kure has worked as a supervisor for over 20 years; he is currently with the European insurance authority, EIOPA, where his responsibilities include project lead on the Solvency II Preparatory Guidelines. Previously, Jarl coordinated the EIOPA Financial Stability area, including EIOPA Risk Dashboard, stress testing and relations with the European Systemic Risk Board.

Simon Kwan is Vice President and Head of Financial Research at the Federal Reserve Bank of San Francisco. He conducts research and policy analysis in the areas of financial institutions and financial markets. Simon has published research articles in leading finance journals and book chapters.

Victoria L. Lemieux is an Assistant Professor at the University of British Columbia’s iSchool with a research focus on financial informatics. She founded and directs the Centre for the Investigation of Financial Electronic Records and is also Acting Director of the University of British Columbia’s Media and Graphics Interdisciplinary Centre.

Irina S. Leonova is a member of the Financial Stability Board Secretariat, where she currently specializes in market structure questions related to financial data infrastructures, LEI, and OTC and exchange traded derivatives among others. Previously she held positions at the US Department of the Treasury, CFTC, and Bureau of Economic Analysis.

John C. Liechty is a Professor at the Smeal College of Business at Penn State University. He is an expert in derivative pricing and asset allocation, computational statistics and high performance computing, and marketing research. He has a Ph.D. from the Statistical Laboratory at Cambridge University.

Robert Mark is the Founding Partner of Black Diamond Risk, serves on several boards, has led Treasury/Trading activities, and was a CRO at Tier 1 banks. He was the Founding Executive Director of the MFE Program at UCLA, has co-authored two books on risk management, and holds a Ph.D. in applied mathematics.

Michael J. McCabe is a Director with Deloitte Financial Advisory Services LLP, specializing in the application of analytic and forensic technology in the financial
services. He has held previous roles consulting on regulatory and compliance issues, business processes and controls, data collection and retention, as well as transaction monitoring in financial firms.

Karla McKenna is Chair of the International Organization for Standardization Technical Committee 68 (ISO TC68), Financial Services, a position she has held since 2006. When not handling ISO assignments, Karla manages Market Practice and Standards for Citibank’s Global Transaction Services, Securities, and Fund Services businesses. She sits on numerous other standards committees worldwide.

Bill Nichols is Senior Advisor at the US Office of Financial Research. Prior to joining the OFR, he was at Bridgewater Associates. He has worked at the intersection of finance and technology for the past 25 years and been active in the global financial standards community for ten years.

Jim Northey (B.S. University of Indianapolis, M.S. Illinois Institute of Technology) is a co-founder and senior partner in The LaSalle Technology Group, LLC. He is co-chair of the FIX Americas Regional Committee, representing FIX within ASC X.9. Jim is a member of the US Treasury OFR Advisory Committee.

Per Nymand-Andersen is an adviser to Senior Management at the European Central Bank. He specializes in European banking, financial markets, statistics, securities settlement systems, management and communication. Per is a key editor of the Statistics Paper Series and lectures at the Goethe University. He is a former international consultant and has an MBA in Economics and Management Science from Copenhagen Business School, Denmark.

John C. Pattison is a financial consultant specializing in regulatory and risk governance matters. He is a former banker and has taught at the Ivey School of Business, University of Western Ontario. His publications are mainly in the field of international finance and economics including the regulation of financial institutions.

Gary Richardson is a professor at the University of California, Irvine. He has recently been named the Federal Reserve System Historian. He is also a research associate at the National Bureau of Economic Research. His research interests include economic history, macroeconomics, the Great Depression, the Industrial Revolution, property rights, and economic development.

Nicholas Robson is an IT consultant with 18 years of experience across Canada, the USA, UK and Italy. He has a depth of experience in Enterprise Data Management, including database design, administration, architecture, and project management of EDM implementations. Nick holds an M.S., Computer Science, from the University of Hertfordshire, UK.

Clifford V. Rossi is an Executive-in-Residence and Tyser Teaching Fellow at the Robert H. Smith School of Business, University of Maryland. Prior to entering
academia, he had nearly 25 years of experience in banking and government. He has also held senior risk management positions at Freddie Mac and Fannie Mae. He received his Ph.D. from Cornell University.

David M. Rowe is founder and president of David M. Rowe Risk Advisory, a risk management consulting firm. David has spent almost 40 years in the risk management technology, banking, and economic forecasting industries. He has written the monthly Risk Analysis column in Risk magazine since late 1999.

Jonathan Sparks is an attorney at King & Spalding in Atlanta, Georgia. He recently graduated from the George Washington University Law School in Washington, DC, where he specialized in corporate, regulatory, and securities law and policy.

Richard Stanton is Professor of Finance and Real Estate and holds the Kingsford Capital Management Chair in Business at the Haas School of Business, University of California at Berkeley. He is best known for his research on mortgage markets, term-structure modeling, mutual funds, and employee stock options.

Deborah Stockdale is an Engagement Partner at Teradata focusing on Enterprise Data Management, Data Governance, and Data Architecture. She has held previous roles as Chief Data Architect designing information architectures for satellite constellations, designing and implementing large scale data warehouses for Fortune 100 firms, and teaching data strategy and data management courses.

Charles Taylor is Deputy Comptroller of the Currency for Capital and Regulatory Policy. Previously, he was Director of the Financial Reform Project at Pew Charitable Trusts and Executive Director of the Group of Thirty.

Nancy Wallace is a Real Estate and Finance Professor, Haas School of Business, University of California Berkeley and the Lisle and Roslyn Payne Chair in Real Estate and Capital Markets. She co-chairs the Fisher Center for Real Estate and Urban Economics and co-faculty directs the Berkeley Center for Law, Business and the Economy.

Jesse T. Weintraub is a broker-dealer and regulatory enforcement attorney at Bracewell & Guiliani in New York City, specializing in the representation of various financial institutions in matters arising under federal securities laws and self-regulatory organization rules. Jesse is a graduate of the George Washington University Law School.
On August 9, 2007, a large European bank announced unexpectedly that it could not obtain valuations on subprime securities underlying three of its investment funds. Accumulated anxiety about the quality of the collateral in repurchase agreements (repos) turned into a full-blown panic attack. Lenders withdrew from this market in large numbers, sending dealers on an urgent hunt for new funding. The world was witnessing a full-scale run on the shadow banking system. At that time, the shadow banking system was not well understood by practitioners outside its arcane confines.

Yet this episode demonstrated its ability to quickly spread contagion not only across the financial system, but also to the real economy, culminating in the events of the fall of 2008, where extreme measures had to be taken by the US and European governments to stabilize the economy. All told, the failures represented trillions of dollars in assets and hundreds of billions of dollars in losses, with central banks, finance ministries, and the US Treasury piling resources into the breach.

This was all a prelude to the full catastrophe.

In September 2008, a second intense wave of failures and near-failures claimed a number of victims, mostly in the USA, and many supposedly “too big to fail.” The episode sent financial markets into a free fall that lasted for six months. The ensuing failures, interventions, conversions, and mergers have permanently and fundamentally altered the financial industry landscape. Much time, effort, and discussion has been devoted to analyzing these events; yet even today, years later, there are several conflicting theories about what exactly happened and who was responsible. It is facile to lay the blame wholly on first-time homebuyers in subprime and Alt-A mortgage markets, as these borrowers represented only one half of a transaction at the front end of a much longer securitization chain. How did loanable funds make their way into these deals? Observers of various persuasions have laid responsibility at the feet of such varied parties as the US and Chinese governments, Government Sponsored Enterprises, investment banks, and credit ratings agencies. In hindsight, one of the surprising things was how
unprepared the world economic community was for the scale and speed of these events.

Anyone who has sat through a college investments course knows that information plays a central role in finance. Markets can be seen as an information-processing system. The Efficient Markets Hypothesis asserts that markets should reliably react and adjust to available information. They may make mistakes for a time, but they should not be wildly or consistently biased. Yet what the events leading up to 2007 showed us was that the markets did not, in fact, properly react to information that was available, and continued to build up stresses. How could sophisticated institutional investors have been so wrong for so long about the values of mortgage-backed securities?

Starting in February 2009 – as the economic situation continued to deteriorate despite extraordinary measures – a small group of academics, supervisors, and financial industry participants began a series of conference calls to discuss the “what happened” question. The initial core group of Professors John Liechty and Arthur Small of Penn State University and Mark Reesor of the University of Western Ontario, Joe Langsam at Morgan Stanley, and Allan Mendelowitz and Mark Flood at the Federal Housing Finance Agency, began soliciting further expertise among their professional networks. Many of the authors and editors of the Handbook you are reading participated in those discussions. Like a garage band, we settled on a name before we learned how to play our instruments: The Committee to Establish a National Institute of Finance (CE-NIF, www.ce-nif.org). We agreed from the start that a basic problem – although surely not the only challenge – was the supervisors’ lack of wherewithal: they simply did not have data of sufficient quantity and quality, nor the analytic capacity required for the scale, pace, and sophistication of modern financial markets. We had the hubris to propose a new federal agency to rectify this shortcoming. The group grew quickly through professional connections. There was never a formal charter, outside funding, or well-defined authority within the CE-NIF. Instead, the incentive structure ensured that the most dedicated participants would take the lead: significant effort was required, with zero remuneration guaranteed and little hope of success or glory.

The idea for a Handbook emerged from the conversations of the Data Subcommittee of the CE-NIF, which assembled a wealth of technical and professional expertise and wisdom. This “data committee” included chief data and technology officers, senior risk managers, and economists, researchers, and engineers from government, industry, and academia. Although the original impetus for the CE-NIF and its data committee was a systemic financial crisis, the discussion quickly moved beyond systemic risk to the broader risk and data management issues in finance. Where economic theory speaks in abstractions about public information sets and conditional
distributions, the data committee discussions focused on more mundane topics and concrete realities such as end-user computing, metadata management, messaging formats, data validation, ISO standards, and semantic modeling.

In sharing ideas and swapping war stories, two themes emerged. The first was the extent of disarray in financial data, not just for supervisors but at financial firms themselves. While it is common in policy and management circles to proclaim that it is the “What” that matters, not the “How,” it became abundantly clear that the converse was often true: that the How had in fact influenced the What in a profound way.

The second theme was that we all had a lot to learn from one another. Too many facts and lessons were passed along as oral traditions within subspecialties, or re-learned the hard way by individuals confronting a problem that others had seen before. It was observed repeatedly during these sessions that, “this stuff just isn’t written down anywhere.”

This Handbook is our attempt to write some of those facts and lessons down. We have in mind the financial economist who needs to know about the main industry messaging standards, the database administrator who wants to learn what volatility clustering is and why it is important, the risk manager working with the mortgage supply chain for the first time, and the systems engineer trying to understand bank regulatory reporting. In short, we envisioned this Handbook as a practical companion and reference sitting on desks of the wide range of people who need to come together to solve the problems of information infrastructures in large financial institutions and regulatory organizations.

The ambition to collect this much information in such a wide-ranging and fast-moving area in one place creates an inevitable tension between comprehensiveness and timeliness. We hope that the resulting compromises and omissions are at least tolerable, and that the Handbook will achieve its desired status as a dog-eared companion for the reader. We encourage the reader to make liberal use of references and sources provided to extend the lessons provided herein.

The Handbook is presented in two volumes. This satisfies the needs of practicality; two 600-page books are undoubtedly less daunting and more tractable than one 1,200-page book, but there is logic to this as well. Any attempt to address information infrastructure in a large organization (be it commercial or regulatory) must stand on a foundation of requirements. Volume I provides this basis in three parts. Part I provides the context and rationale for the need for financial data, describing the various data needs of risk and regulatory processes. Part II describes the supply-chain of data in the financial markets and the real economy, as well as the intersection and transmission of data across their common boundaries. Part III covers a broad range of topics relating to the use of data by regulators.

Volume II addresses topics that a financial institution or regulator would find necessary to implement change in their infrastructure. Part IV addresses a critical
component of implementation by describing how data emanates and are modified within an organization. Part V addresses various topics relating to the rapid changes in technology for data processing that makes these problems much more tractable. Part VI covers topics relating to the management of data remediation programs and environments.

The Handbook brings together an eclectic range of experts from a wide range of fields, as befits this expansive topic. Early on in its development we felt it would better serve our readers to let the voices of these experts shine through unadulterated by attempts to standardize the presentation across the Handbook. Accordingly, each chapter employs its own presentation style, with the attempts at normalization restricted to the superficial “look-and-feel” of the chapter.

Bringing this Handbook together has been at once a challenging and rewarding task. We hope that you find as much value in reading and referencing the book as we did in putting it together. Nothing would please us more than if this Handbook were to render itself obsolete over time by playing a small part in fixing the present unwieldy information infrastructures in the financial industry.

Margarita Brose
Mark Flood
Dilip Krishna
Bill Nichols