Inside Reference Data

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Managing Risk

Special Report

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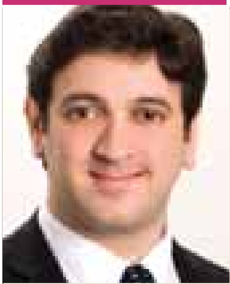
Editor's Letter



Risking a Deeper Dive

Risk management often sets the priorities for data management. So, given the opportunity to hear from data management professionals about how managing risk should be supported through data management actions, *Inside Reference Data* included data quality and data governance questions in the Virtual Roundtable appearing in this report.

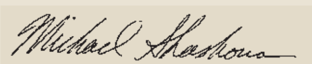
BNY Mellon's Kerry White sees data quality improvements "making a difference" for risk management, although those improvements are not complete. Greater volumes of data are being accessed more frequently to carry out risk management reviews, she says, while Fidelity ActionsXchange's Deborah Culhane says data quality is being improved by more mature data governance processes.

Data governance, however, must be achieved independently of risk management, in some respects. "Good, sound data governance needs to ensure that it encompasses all aspects and uses of data," says HSBC's Peter Serenita. Data governance should not be so narrowly defined that only one part of a firm, like the risk department, is responsible.

Customers are demanding more granular data, thus requiring timely and meticulous production of data, according to White. Data has to be organized and saved accurately, globally and intuitively to allow later access using business intelligence tools, she says.

In effect, to best use data to manage risk, firms have to take the risk of putting more effort and resources into their data operations, setting comprehensive governance standards and being more careful and precise with collection and management of that all-important data.

Yours sincerely,



Michael Shashoua
Editor, *Inside Reference Data*
Email: michael.shashoua@incisivemedia.com
Tel: +1 646 490 3969

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News Review

Data Management Criteria Expand in Asia-Pacific

In efforts to get timely, accurate and complete data to better support risk management, the criteria are growing and better workflow and departmental management are necessary, according to Asia-Pacific-based professionals.

Study of workflow weaknesses and understanding colleagues goals' are keys to getting a clearer picture of data needs, supporting improvement of risk management and straight-through processing, says Vinay Pampapathi, Hong Kong-based executive director, head of equities technology, Daiwa Capital Markets Hong Kong. "If you can quantify how and where your transactions are failing, you can then assess what data requirements you have," he says. "It's similar with risk, which probably needs a much more complete set of data. If you know exactly what your risk requirements are and can work with your risk department to assess exactly what they need and what kind of reports they need to run, you can look for data vendors who can supply that data."

The criteria now include coverage, service and data quality, says David Lecompte, Singapore-based senior market development manager at SIX Financial Information. "Firms want to go to a limited number of vendors, so coverage is also important in assessing the overall quality of the vendor," he says.

Nicholas Hamilton

State Street, Northern Trust Prepare Solvency II Efforts

John Ellis, Edinburgh-based Solvency II program manager at State Street, says his team is dedicating 2013 to closing out a number of data gaps in its Solvency II product, the Solvency II Data Cube, but says some data items are still proving elusive. Ellis highlights structured products as an area where the availability of data remains a challenge. He says that when his team did a request for proposals for the structured products data, they found that although some of the data exists in prospectuses, "more than 50% of what is being asked for is not systematically available."

State Street has responded to this data redistribution challenge by building a metering system so that it can monitor its clients' use of vendor data, but the firm and its fellow TPAs are continuing to lobby data vendors to minimize the costs charged to their insurance clients.

Nicholas Hamilton

Virtual Roundtable

Managing Your Risk

Inside Reference Data gathers together leading industry professionals to discuss the increasing role data management plays in today's risk management considerations

What aspects of data management are now most important to consider in support of risk management?

Alexander Tsigutkin, CEO, AxiomSL: New regulation, such as Basel III and the Dodd-Frank Act, is converging financial and risk management reporting. Historically, these reporting requirements were met with a combination of general ledger, position and reference data. Now, capital, risk and liquidity management are included in the scope of financial and regulatory reports. Additionally, reporting attributes under the broader regulatory scheme demand more granular and complex data, which requires firms to improve the flexibility and transparency of their information infrastructure.

This explosion of information sources will force enterprises to evolve in their approaches in applying data management capabilities to optimize business performance and reporting. Regulators expect data integration and data warehousing across both financial and risk management reporting. Any changes or adjustments to data in financial reporting are expected to be seamlessly captured in risk management reporting processes. To this end, organizations must now proactively focus on ensuring data quality and integration initiatives to meet the new capital and liquidity regulatory requirements.

Kerry White, managing director, global product management, BNY Mellon: Data management has become an incredibly important aspect of risk management, and will continue into the future. For example, under Solvency II, insurers are expected to face major data management challenges if they hold large and diverse investment portfolios that might be spread out across multiple service providers. Obviously, risk management is always paramount to insurers, but they might find that having a wide variety of assets presents a newfound data management conundrum.

Virtual Roundtable

There are some considerable challenges looming for the asset management industry under Solvency II if they cater to insurers. The managers will be required to demonstrate that their data management processes are as robust as those adhered to by their insurance clients. This will require a deeper level of granularity in reporting about the data. In both these examples, they will be required to provide data for each asset on a security-by-security basis, which may present a major challenge for both insurers and their asset managers.

Deborah Culhane, chief operating officer, Fidelity ActionsXchange: Firms are looking at existing data management strategies and information sourcing alternatives to ensure they are maintaining flexibility from both a technology and an information standpoint to support internal risk requirements and regulatory imperatives. Much of this effort is often running in parallel with the need to comply with corporate mandates for improved operational efficiencies that improve overall market competitiveness. These dynamics have led to greater awareness in the data management domain of the strategic value of outsourcing. Outsourcing can deliver the flexibility required not only by the demands of an evolving global regulatory agenda, but also by the fundamental changes in market infrastructure supporting expanding global trading venues, settlement practices and asset servicing requirements.

Key priorities for firms to consider when evaluating data management in support of risk management include:

- Flexibility of existing internal technology infrastructure and the ability to readily keep pace with expanding discrete, evaluated and enhanced data requirements.
- Evolution of more managed data services platforms and the ability to provide needed flexibility and cost optimization.
- Specialized data content sourcing and related data aggregation needs.

Peter Serenita, chief data officer, HSBC: It goes back to the basics: data definitions and data quality. Risk management requires accurate aggregation across businesses and locations. To get that right requires that the data from each of these businesses and locations is working off the same definitions, that the data is obtained from authenticated sources and that the quality can be measured. This is easier said than done, as financial services is a very dynamic environment and data governance across these areas requires a level of discipline that cuts across traditional organizational boundaries.

Simon Taylor, head of legal entity change, group data services, UBS: In the context of data, the term risk management has become broader than ever. For example, credit risk, market risk, operational risk and regulatory risk are all very pertinent aspects of risk that have ever-increased dependencies on data management. Right now, regulatory risk and credit risk seem to be the most relevant. The most important aspects of data management are a single view of legal entities, data integration, the role of the market data provider and governance.

Are chief data officers (CDOs) or executives in equivalent roles getting suitable authority to take necessary data management actions to support better risk management? Are they exercising that authority wisely?

Tsigutkin: Our experience has shown senior management is currently evaluating how to consolidate financial and risk reporting, which traditionally are separate teams and processes. As a result, institutions are identifying the role data management has in increasing the value and trustworthiness of data, and in performing gap analysis and assessment to successfully combine the separate worlds of financial and risk management reporting. CDOs and executives should note that a comprehensive data management platform that incorporates multiple data channels into one view would enhance reconciliation while reducing cost, time and human errors.

AXIOM SL
software laboratories, inc.

Alexander Tsigutkin,
Chief Executive Officer,
AxiomSL
+1 (212) 248 4188
www.axiomsl.com

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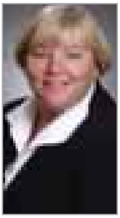
White: They are largely given suitable authority to take the required data management actions. At large firms such as BNY Mellon, risk management and data management are always very big priorities. Our data management executives are empowered to make changes when necessary. We need to be quite meticulous about the data on many fronts. Bringing the data (e.g. pricing or f/x rates) in on a timely basis is just the start. We also need to be sure it is stored securely, and accessed securely. Information infrastructure is critical to ensure that we and our clients can get to the data required to execute good risk management practices.

Serenita: The current regulatory environment has focused management attention on the importance of data and this has provided CDOs and data professionals



Deborah Culhane,
Chief Operating Officer,
Fidelity ActionsXchange
+1 (877) 777 5838
ActionsXchange@
Fidelity.com
actionsxchange.com

the platform to implement sound data management practices. I believe most are seizing this opportunity by setting up governance processes and executing data management programs within their organizations. The trick is always ensuring the right balance of taking a strategic approach with the need for executing in the required time frame. The Basel Committee on Banking Supervision (BCBS) has defined principles for risk data aggregation that very well align with sound data management practices. In fact, if you look at the Data Management Maturity Model (DMM) from the Enterprise Data Management Council, I believe you will see a direct correlation to the BCBS principles, so as firms align to the DMM practice, they will also satisfy the BCBS principles.

Taylor: No, not yet, but there are definite signs that it is moving in the right direction. The implementation of the early phases of the US Commodity Futures Trading Commission business conduct requirements has caused noise in the industry, which has had a visible impact on how we do business. Where the economic impact of reference data becomes transparent, sales and trading functions are becoming more interested, and our position in the macro agenda is starting to improve. I believe it will take another 12 to 18 months for CDOs to have the support they really need.

Is data quality being improved sufficiently to make a difference in risk management?

Tsigutkin: Regulators are demanding more transparency and streamlined business workflows to improve data collection, validation and integration, and it is a work in progress. Organizations should adopt a comprehensive data-driven approach to meet stringent regulatory requirements. Data management systems should offer flexibility and scalability with drill-down and audit trail capabilities. Financial institutions should not only evaluate the way they source, aggregate and monitor data but the ability to leverage original information across all areas of the data infrastructure.

White: Yes, the improvements in data quality are making a difference in risk management, but there is still room for improvement. Two of the challenges we are constantly being confronted with relate to velocity and volume. Our clients are accessing volumes of data that we manage on their behalf, and they are doing it much more frequently. This is particularly true during times of market volatility, because they need this information to carry out their various risk management reviews.

Culhane: Most firms understand the standards of data quality and the effectiveness of data governance and oversight programs significantly impact overall business risk, regulatory compliance and the level of customer satisfaction they deliver. In most firms, the maturity of the organization's data governance processes, as well as ongoing regulatory focus, have positively impacted the general quality of data.

In addition to the impact of governance and oversight processes, the implementation of improved technology combined with more customized and validated data content, has enabled firms to improve data quality. Firms that deploy more fragmented legacy applications are often unable to automate enough to improve data quality, in data aggregation, business rules and transparency of data drill-down capabilities. Given the dynamic global markets and evolving regulatory agendas, the right technology and customized data solutions allow firms to take advantage of high-quality data content for more effective risk management.

Improvement in data quality has certainly enhanced firms' ability to address risk management processes and controls. But the pace of market and regulatory change requires a continued focus and investment by firms to ensure they remain compliant with internal risk policies as well as expanding regulatory requirements. The challenge is investing in a longer-term data quality strategy, while addressing daily demands for improved operational efficiency. Partnering with trusted third-party providers, who maintain and invest in the resources and technology to provide specialized data and deep domain expertise, is a promising alternative.

Taylor: For me, no! I still think the focus is on tactical remediation and point fixes, but not enough investment and effort on fixing the foundations. The legal entity and client domain needs more focus on holistic solutions for the ongoing maintenance of critical reference data, hierarchies, corporate actions and an emerging need for regulatory entity classifications. Entity data that falls under anti-money laundering / know-your-customer (AML/KYC) rules is generally strong because most banks have a robust AML policy. However, they are expensive to run and therefore selective. Entity data that doesn't fall under AML, such as pension funds, is a separate, complex challenge that

Kerry White, BNY Mellon

is more relevant than ever.

Is data governance being viewed through the lens of risk or with other considerations in mind?

Tsigutkin: Data governance is still being viewed purely from a business workflow standpoint rather than as a tool to thoroughly manage operations. Financial institutions need to improve data accessibility and quality, while moving to more centralized data governance structures. As a result, banks should leverage existing data to work with their data governance initiatives to ensure consistency, transparency, scalability and quality, while mitigating the risk of new data and analytic silos.

White: For us at BNY Mellon, it really is a bit of both. Risk oversight is generally needed to ensure market integrity and data governance. Other considerations when we are talking about clients' access to their data relate to ease of use. We are very focused on the client experience, and we recognize that our tools not only need to be secure and available, they also need to be intuitive to use. Clients rely on our data to make important investment decisions every day, so it is critical that we are good stewards of their data.

Serenita: Data governance is being viewed with a risk lens, but it should not stop there. While risk can and should be a priority, sound data governance needs to ensure it encompasses all aspects and uses of data. There are significant business benefits to be obtained via good data governance. Some of this can be quantified in a business case but most of it acts as an enabler to other business capabilities and benefits. If data governance is too narrowly defined (e.g. risk), then it will become the responsibility of one part of the organization, such as risk, and the business will not feel ownership or accountability. It will be something that happens somewhere else in the organization.

Taylor: Risk, heavily, but we are also starting to see the client management and information systems (MIS) lens appear. Getting a single view of the client and economic value, not just revenues, is emerging as a key driver.

What changes in data governance are affecting risk management?

Tsigutkin: Financial institutions deal with a high volume, high velocity and high variety of data. This requires cost-effective, scalable and flexible technology platforms that enable enhanced insight, decision-making and process automation. New regulation such as Basel III, CCAR and Dodd-Frank forces institutions to carefully assess data governance methodology. A strong and flexible data-driven platform will give a robust foundation for operational efficiency, accountability and enhancement of a cross-enterprise approach. This integrated framework should also include a complete workflow with automated end-to-end processing to address complex and extensive risk calculations.

White: Rules about data dissemination are impacting risk management and vice versa. Customers are looking for more data at a more granular level, so we need to be meticulous about the data on many fronts. Bringing it in on a timely basis is just the start. We also need to be sure it is stored in the most accurate, logical, and intuitive way, so we have an ability to access the data through our various business intelligence tools efficiently.

Taylor: It's too early to say. Data governance is only starting to be taken seriously and I haven't yet seen any material impact on risk management.

What new data management developments do you see coming that will help reduce risk?

Tsigutkin: The volume of new requirements will force institutions to develop comprehensive tactical and strategic solutions using vendor products, along with internal IT development to manage and reduce risk. Organizations should deploy data management practices and technologies with a strong focus on integrating a dynamic data warehouse. Data integration capabilities are essential if the information is to be shared across all organizational and system boundaries. A multi-jurisdiction, cross-enterprise approach is required to integrate siloed systems and successfully meet new and evolving business requirements.

Peter Serenita, HSBC

White: Regulators are compelling market participants and service providers to help reduce risk, and having clean and accessible data is key to that. Solvency II is a good example that is going to have an impact on data management. Because this essentially overhauls the capital and risk management regulatory framework for European insurers, many of us will be impacted. Data delivery will be one area of development, as many investors will require data much earlier than they may have in the past, and they will have some pretty rigorous granularity requirements. Another development will be in look-through data, as insurers will need to 'look through' any fund-of-fund and other opaque investment


Simon Taylor, UBS

structures to identify the ultimate asset that they own. In all likelihood, this will increase the frequency of data exchanges between banks, asset managers and the insurers.

Culhane: The development of the global legal entity identifier (GLEI) will continue to have significant impact on risk and data management strategy and enhance the enterprise view of business entity/counterparty risks. Firms should be engaged in the ongoing implementation of the GLEI, particularly as the industry and regulators alike move to finalize not only the nature of the identifier, but the scope and depth of the underlying data attributes associated with the GLEI.

This evolution of the GLEI, and the nature of information that will ultimately be made available to the marketplace, will have significant impact on the way the GLEI influences the data management space and related risk management practices. The GLEI has implications for financial instrument identification, institutional customer and counterparty requirements, and firms' ability to effectively leverage this information to improve risk management across the enterprise.

Many firms are working to ensure their data management strategies and related infrastructures are focused on delivering continued improvement in risk management practices. These efforts are also being assessed and executed from a more comprehensive enterprise perspective. The GLEI will be a critical linchpin in enabling the success of these efforts.

Serenita: Standards will significantly reduce risk. Industry-wide standards leverage the combined power of all the firms in the development of the standards; then each of the firms can focus on adoption as opposed to development of the standard. In addition, these industry-wide standards will be adopted by others, such as vendors, utilities, clearing agents, etc. This has enormous pay-back for financial services firms. The legal entity identifier was an excellent first example of this. It has shown that the development and implementation of standards across the industry is possible and can ultimately reap benefits. There is currently some momentum on development of additional standards (e.g. the adoption of the Financial Industry Business Ontology from the EDM Council) and while this will take time, it is time well spent.

Taylor: The new regulations are clearly the biggest development. I would like to say that it is new innovation by market data providers, but I don't see anything holistic or a game changer.

Q&A

The Data-Risk Link

Inside Reference Data speaks with Michael McMorrow, principal at MMM Data Perspectives, about aspects of data that are useful for risk management

Michael McMorrow

Can other industries offer lessons to the financial industry on using data operations to better manage risk?
Highly regulated industries like pharmaceuticals and highly interconnected ones like the automotive industry long ago embraced industry-wide standard identifiers for efficient oversight and operations. Identifiers by themselves are not a business differentiator. What you store attached to them and what you use them for are the differentiators. The financial services industry has not always enthusiastically championed such standardization. The result is risks from inefficiency and inability with business-critical tasks.

What aspects of using data governance to support better risk management are common in all industries? Or just within the financial industry, in your experience?
Data governance should prioritize activity based on evidential reduction and mitigation of risk. Is this hard link between data governance and risk management common across financial services and other industries? Not common enough, in my experience, as they are frequently driven through different parts of the organization.

Are risk management concerns better defining data management, data governance or data quality?
Yes. There are far too many examples in financial services of how data has either caused risk, or played an ineffective role in mitigating it. Poor data management, data governance and data quality aren't just annoying, they prevent the enterprise from performing accurate risk-based analytics, leading to very costly operational mistakes and regulatory penalties. Risk management should be an ally on mutually beneficial changes in both areas.

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