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May 2010

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Managing Risk

Special Report



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Editor's Letter



Risk Resolutions

No matter if you attend a financial information event in Tokyo, London or New York, the key message from market participants is pretty much the same at the moment: firms are under growing pressure from regulators and need more and better integrated data to mitigate risk.

But regulators are also under pressure to take action. In the US, the financial reform bill, passed in the Senate Banking Committee and introduced as a bill in the US Senate in March, proposes setting up a data and analysis centre, the Office of Financial Research (OFR). The concept of this type of reference data utility has been highlighted as essential for monitoring systemic risk. Yet, in April, US senator Richard Shelby held a speech where he dismissed the introduction of OFR as costly and too powerful.

The question now is if Shelby is correct to raise these concerns. The introduction of a utility would create a structural change in the industry, potentially moving some of the basic reference data collection and distribution role from data vendors to a government-run facility. Is this the best way for the market to manage risk and the problems of inadequate data and lack of standardization?

These types of discussions are not only happening in the US. Regulators all over the world are assessing ways to introduce changes that will help mitigate systemic risk and prevent future crises. For the reference data industry, the growing pressure means increased focus on ensuring data is accurate and easily accessible, and in this *Managing Risk Special Report*, which includes comments from industry experts and a news review, we hope to provide readers with an insight into how this can be done.

Yours sincerely,

A handwritten signature in black ink, reading 'Tine Thoresen'.

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The financial crisis has resulted in growing pressure on firms to get more data for risk management and improve data quality.

Inside Reference Data gathers leading industry professionals to discuss how data management strategies can help mitigate risk

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IRD speaks to Dayle Scher, research director, investment management, Tower Group, about the types of projects firms are currently prioritizing



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Société Générale Embarks on High-Level Data Centralization Initiative

PARIS—Société Générale's security services fund administration has started planning and implementing a global data centralization initiative to overcome data quality challenges and enhance data coverage while reducing costs, officials tell *Inside Reference Data*.

The initiative, which began in 2007, first focused on France, Ireland and Luxembourg, is due to focus on Spain, Italy and Germany. Paris-based Olivier Rose, head of projects and international data management at Société Générale Securities

Services – FAS, says: “By just focusing on these six countries initially, our aim was to increase the quality and save some of our global budget for data, despite a growing amount of assets covered by the group.”

In 2009, the group put forward plans for another data management centralization project, aimed at focusing on data at an even higher level, but this was postponed due to turbulent market conditions.

The full version of this story appeared in *Inside Reference Data*, February 2010.

Carla Mangado

Utility Discussion Moves From Legislation to Implementation

WASHINGTON, DC—After the introduction of the financial reform bill in the US Senate, which covers the creation of an office to collect and monitor data, market participants are debating how the reference data utility will work in practice, officials tell *Inside Reference Data*.

In March, US senator Christopher Dodd's financial reform bill was passed in the Senate Banking Committee and introduced as a bill in the US Senate. It proposes setting up a data and analysis centre, the Office of Financial Research (OFR), that will sit within the US Treasury.

In a Senate Banking Committee session to mark up the Restoring American Financial

Stability Act of 2010 on March 22, senator Jack Reed, who supports this part of the bill, said “some of the best minds in the country” had helped create the OFR proposal.

“This office represents a bold step forward towards understanding the factors that threaten to rip holes in our system, providing early warnings, and allowing regulators to act on that information,” he said, adding he will focus on ensuring the OFR has the “people, authority and technology it needs to gather information from anywhere in the system”.

The full version of this story appeared in *Inside Reference Data*, April 2010.

Tine Thoresen

Panel: Liquidity Risk Monitoring Standards 'Lack Strong Base'

LONDON—The new Basel Committee on Banking Supervision (BCBS) liquidity risk monitoring standards lack a strong foundation due to poor industry data, said more than 90% of attendees at a FS Club meeting in London in March.

In December 2009, the BCBS issued a consultative document, *International Framework for Liquidity Risk Measurement, Standards and Monitoring*, with a closing date for comments of April 16. Section 100 stated: "The banks will provide the raw data to the supervisors, with no assumptions included in the data. Standardized contractual data submission by banks enables supervisors to build a market-wide view and identify market outliers vis-à-vis liquidity."

London-based PJ Di Giammarino, chief executive at regulatory think-tank JWG, said regulators want to measure the amount of micro-prudential and macro-prudential risk in the system, and to do this they will look at an individual firm's data. But the data must be comparable across firms. "Banks are being asked to provide the raw risk data to the supervisors without assumptions. Supervisors will then apply their own formulas," he said.

Yet, Julia Sutton, global head of customer data at RBS Capital Markets, said firms will not be able to send the raw data to the regulators as there is a degree of intervention. She said banks have to be able to manipulate the data, and firms typically operate in silos with different data sets.

The full version of this story appeared in *Inside Reference Data*, April 2010.

Carla Mangado

UK FSA Fines Four Firms Total of £4.795 million

UK regulator the Financial Services Authority (FSA) has fined Credit Suisse £1.75 million, Getco Europe £1.4 million, Instinet Europe £1.05 million and the London branch of Commerzbank £595,000 for failing to provide accurate and timely transaction reports to the regulator.

XBRL to Enhance Data Jobs and Reduce Risk

The take-up and expansion of data tagging standard XBRL is set to change the nature of data analysts' jobs, said speakers at the XBRL US National Conference in New York in November. Firms typically manually verify corporate actions information, checking against original sources that all the data is accurate. Panelists said they would like to see the elimination of manual processing.

Sybase Buys Aleri

Software vendor Sybase has purchased complex event processing technology company Aleri, strengthening its real-time analytics platform by adding liquidity risk management and a liquidity management suite.

Risky Business

The financial crisis has resulted in growing pressure on firms to get more data for risk management and improve data quality. *Inside Reference Data* gathers leading industry professionals to discuss how data management strategies can help mitigate risk

What types of data management projects are most likely to be prioritized going forward?

Christopher Butler, project director, data management, risk department, National Australia Bank: Metadata projects and initiatives focused on enterprise data domain models and glossaries. These three projects have been approved at my firm. In addition, we are also appointing data stewards, a program that is more about managing change.

"The crisis exposed weaknesses in risk management systems, highlighting the fact that some risks are more closely related than previously thought"

Brian Sentence, Xenomorph

Tony Brownlee, managing director, data solutions, Kingland Systems Corporation: We see two types of data management projects being prioritized right now, and they are gaining support and funding across the industry. First, some firms have prioritized efforts to clean up existing data problems.

For example, legacy securities master or client information systems that have not been actively managed for 20 years but have historically 'worked' for operational purposes, have shown data quality problems when risk [units] came calling in need of reliable information to perform certain enterprise risk analyses. Firms are using tactical (less than 12 month) projects to fix long-standing errors, standardizing, removing duplicates, and enhancing the data to provide more value to end stakeholders.

The second type of project we are seeing is a 'single view' or '360-degree view' of

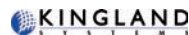
the enterprise. Having gone through a period in which managing enterprise risk is critical, these firms are identifying data that is common and duplicated throughout tens of hundreds of systems around the globe and investing in technology and processes to integrate, manage, and better use this common data. These projects are implementing platforms that will be the foundation for data management for the next number of years.

Matthew Cox, managing director, BNY Mellon Asset Servicing:

Anything that brings risk reduction or a significant cost saving will get prioritized. This could be through automation projects, location strategies, or simply creating a scalable model by combining the two. Organizations want to take advantage of different time zones in order to share work that has historically been performed in one or two central locations.

Additionally, we are all waiting in anticipation to understand what enhanced regulations and reporting requirements will come about. What is certain is that we will need to have a mechanism to produce enhanced, timely reporting based on clean, accurate data. These reports may be used for a number of internal and external purposes.

Sinan Baskan, senior director, global FSI solutions, Sybase: The projects that are designed to improve risk management, internal governance and



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agility to accommodate new regulatory requirements are likely to be the higher priority investments.

Brian Sentence, chief executive officer, Xenomorph: The most obvious candidate projects for prioritization at investment banks will be those that are regulatory driven. The crisis exposed weaknesses in current risk management systems, highlighting the fact that some risks, such as market and credit risk, are more closely related than previously thought.

Moreover, 'new' risks, such as liquidity and systematic risk, have further driven the need for a solid data foundation across all areas of the business.

Additionally, trading desks have become more interested in data quality and coverage as they want to understand how best to allocate scarce capital to competing trading activities. More transparent valuation has been a significant

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driver at many asset managers and asset servicing companies. Across all types of institutions, from the smallest hedge fund to the largest bank, clients have been requesting more information, with more accuracy and in less time.

How important is it to measure data quality, and what types of metrics should firms be using?

Butler: It is extremely important, and it is key for maintaining Basel II Advanced Certification. We always track a number of data issues, and the severity of these issues. We also do profiling of critical

"For risk management programs to be effective, data management projects must be in sync with risk management initiatives"

Sinan Baskan, Sybase

attributes to measure the completeness of the data, for example, by reviewing field values or trends.

Brownlee: It is essential to measure data quality. I could list metric examples all day, but a more pragmatic approach is to ensure that for every major business objective, there is an understanding of how data supports the business objective, and then define and implement metrics that aid in the management and monitoring of the objective. For example, if a business objective requires an ability to conduct *ad hoc* risk analysis on a portfolio of securities and counterparty relationships, a firm may define metrics that track when certain data was last updated to understand the reliability of the analysis when it is performed. If certain attributes are on an annual refresh cycle, actions may be taken to improve the metric to an average of six months for certain higher-priority segments of the data.

Cox: It has always been important for many reasons. Historically, these types of reports have been used to help report deliverables vs SLAs, volumes by asset type and volume of workflow, to assist in planning resources etc. It also helps track underlying trends in data quality issues. This information can then be used to address areas of risk, for example.

While this will and should continue, reporting requirements based on data will also continue to be used far more widely to



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track potential compliance and regulatory issues before they become a problem. To assist in doing this, reports must have a clear and meaningful purpose and really address what needs to be reported and understood. Over-complex and confusing reports have historically contributed to real issues being missed as they have been hidden by unnecessary information.

Baskan: Data quality has always been critical. In light of the recent initiatives and current focus on systemic risk in financial markets, the metrics will shift somewhat more to the frequency of updates on related data, tracking changes in counterparty exposure, and quality and

"One key way of getting risk managers, traders and business staff to focus on data as an issue is to relate it to regulatory capital charges"

Brian Sentance, Xenomorph

timeliness of collateral data and the data used in asset pricing models.

Sentance: Measuring data quality is a key way to understand the value your data vendors are delivering, and also to understand and improve on the efficiency of the staff involved in data management. With some risk managers spending between 30% and 50% of their time validating data before they move on to managing risk, the benefits of higher data quality should become obvious to all.

What are the best strategies for aligning data management projects with risk management programs?

Butler: Data projects can be aligned with projects aimed at ensuring the firm become Basel II compliant. Basel II was a shot in the arm for data, and data quality.

The other strategy is to look at data from an operational risk perspective, and see if you can use the operational risk lens to drive data projects. Firms are subject to operational risk, including reputational risk, if data is entered incorrectly or if there is something wrong with the data.

Brownlee: I would recommend three simple, starter approaches. First, ensure the data management project has sponsorship that has some level of enterprise obligation or responsibility towards risk. They will keep things aligned and moving when roadblocks arise.

Second, identify and involve members

of risk as key stakeholders on the project. Even making them an active project team member for a period of six months can be helpful in injecting a risk perspective into your project.

Third, talk with others that have carried out data management and risk management-focused projects. A few practical ideas that have worked somewhere else can save you weeks or months in missed productivity.

Cox: Typically, data management functions act as an internal service provider to many divisions within an organization. The most simple and obvious strategy is to understand your ‘client’s’ requirements. This means working closely with your service recipient to understand what data they require, how they need to receive it and its frequency.

It is also important to understand where the data will end up as this will determine what level of control is needed to manage the data, as well as assisting the external data vendors in reporting usage.

Baskan: There is no question that for risk management programs to be effective, data management projects must be in sync with risk management initiatives. This means that pricing and reference data must be integrated, normalized and distributed in real-time and must be of good quality to be fed into risk models.

The increase in volume and types of data, from intraday pricing, to liquidity indicators, to end-of-day data, to data that



Christopher Butler, National Australia Bank

needs to be processed in real-time is often hindered by data silos, as well as the time devoted to cleansing and delivering this reference data.

Technology tools such as Complex Event Processing (CEP) can align market data with risk management by streamlining the process of data processing and delivery, and making the data more transparent. And by default, this also serves to improve risk management.

Sentance: I would suggest the biggest mistake with risk management programs is to focus solely on risk analysis and reporting, without additionally encompassing data and data quality as a foundation for the success of the program. It is still the case that many risk management software vendors assume that the universe of data used in their systems is perfect, so even with bought-in systems,

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data can quickly become an issue that inhibits the successful implementation of a solution.

One key way of getting risk managers, traders and business staff to focus on data as an issue is to relate it to regulatory capital charges, and the fact that regulators will not approve even the best risk management engines if the data going in is of poor quality, incomplete, poorly audited and poorly controlled.

Initiatives in Europe and the US are focused on building new data infrastructures to mitigate risk and prevent future economic melt-downs. Would governments be fit to operate reference data utilities and ensure high-quality data?

Butler: I don't think it will happen in Australia. Organizations must take responsibility and work with data vendors to ensure good data quality.

Brownlee: No comment.

"More data will be produced tomorrow than was produced today, and it is being produced in every nook and cranny of our industry, every second of every day"

Tony Brownlee, Kingland Systems Corporation



Matthew Cox, BNY Mellon Asset Servicing

Cox: The importance of good quality, clean data applies to all industries, not just the financial industry. The collection and validation of the data is key, but just as important is how the data is being used to measure the function it is reporting against. This is an area that has been an issue historically. Any organization can benefit from a data utility, but it is important to set out and agree roles and responsibilities from the start.

Baskan: Industry participants already devote significant time and effort into data cleansing, so increased controls on standardization of reference data would theoretically increase their productivity and volumes as well as reduce systemic risk. However, there is a balance,

as having regulators operating reference data utilities is quite unwieldy in a global economy. And a lofty goal, I might add, from an international governmental support perspective.

While a global reference data standard would be ideal, the industry is already making strong progress towards that goal with XBRL, Swift, ISO for standardization of reference data and reporting to reduce systemic risk.

Sentance: Certainly there is a fundamental need to understand risk across the financial system, given the connectivity and inter-relatedness that the last crisis has highlighted. In this way, I can understand the motivations of governments and regulators in focusing on data quality. That said, whether governments are 'fit' to provide reference data to the financial markets is an interesting question, one that I would suggest should be answered by considering the incentives and disincentives in getting data and its provision done well.

To get a government or even a committee of governments to manage anything well is an interesting prospect, one that only the very brave would rely upon. What is the downside in the data being provided being wrong, and what is the choice for data consumers if the government data provider is incorrect? Many have discussed the issue of liability for providing incorrect data (an issue commercial data vendors know well), and so have focused on passing this

"It is important for all vendors to continually evolve their service by increasing coverage on the more hard-to-source data as this will give them a leading edge"

Matthew Cox, BNY Mellon Asset Servicing

liability on to the issuer of the security to ensure the correctness and completeness of data at source.

But if issuers are mandated to and liable for providing high-quality data, then surely this is the key issue and why do we need an expensive, new, state-sponsored provider of data? I can see the need for government/regulatory bodies to build their understanding of systematic risk, but some key, simple things, such as truly common instrument identifiers, could be mandated for less expense and more effect. Despite my view, I am convinced the need to be seen doing something is also a key factor in current proposals, so whatever happens it will make for interesting reading.

What else can be done in the reference data industry to help make data accessible, and are there gaps in the data available that vendors can help fill?

Butler: The issue is not that data is not available, but all the quality data

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needed is not available from one provider. Organizations continue to source from multiple vendors and link internally. If there is something that can be done by the vendors, it is to demonstrate that the quality is there.

Brownlee: I would offer one simple reminder that impacts our industry members' ability to manage risks: more data will be produced tomorrow than was produced today, and it is being produced in every nook and cranny of our industry, every second of every day.

The sheer volume of data, complexity of content, and varied usage of this data from system to system and person to person must be taken seriously. While these facts introduce 'risk' into effective risk management, they also provide new opportunities to creatively manage risks. Harnessing the power of all this data in new and inventive ways is where we will find our industry's leaders in the years to come.

Cox: Data accessibility really starts with the provider. You need to work with the vendor or provider to agree what levels of access you and the end recipient are entitled to see. If this is established up front, it makes life easier when the parameters are pre-defined.

We all agree and accept one service provider cannot necessarily cover all data requirements. But it is important for all vendors to continually evolve their service by increasing coverage on the more hard-

to-source data as this will give them a leading edge in the market.

Baskan: Explicit guidance outlining a global reference data standard that multiple data providers can use; data aggregation; knowing the actual source of data instead of through a third party; and an ability for organizations to gain a holistic view of data.

Sentance: A key focus is to make data easy to understand for all users, not just for technologists. With more people using the data, everyone can contribute to its quality and catch mistakes earlier. Spreadsheets and unstructured data are other areas that deserve more attention.

With regard to spreadsheet data, current spreadsheet management systems only monitor what has happened rather than bringing the data being manipulated into the data management process for the institution. Data related to instrument pricing and modelling is a key area, one that does not easily fit in traditional data silos such as reference, market or counterparty data.

From a client and regulatory point of view, it is also becoming more important to be able to recreate the world of data as at a point in time, including a full snapshot of all data and analytics used in a valuation or running a risk report. More and more data is needed by risk managers, and data management solutions must be flexible enough to rise to this challenge.

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As the debate over financial reform in the US Congress progresses, attention is intensifying on how the industry could have been more prepared to identify and cope with rising systemic risks.

Two discussions are progressing side by side in the industry: one centers on how institutions can do a better job in managing their portfolio risks and exposure to their balance sheet; the other is how the financial system can best identify and manage systemic risks. The former focuses on the risk management practice in institutions including processes, management oversight, reporting cycles and quantitative techniques and the second more on public policy, regulatory policy and supervisory oversight, and also on the role central banks and international organizations such as the IMF and World Bank might play.

In the US, the Federal Reserve has already started on a major plan to invest in technology and enhance ability to access information and market data in the financial markets and monitor securities trading operations with significantly more granularity.

As far as regulatory approaches go, the US and Europe have historically adopted different models. In the US, the preference has been on a rules-based model where processes and procedures prescribed at various levels

along with financial accounting standards form the basis of supervisory oversight.

The current efforts in Congress seem to be following this tradition. In contrast, the European approach is principles-based and focuses on outcomes and targeted metrics to monitor risk and identify variances from the norm, and can in some sense be deemed more sensitive to macroeconomic trends.

There is concern over the rules-based proposals under consideration. Any successful implementation of these will require significantly expanded enforcement capacity and capabilities in terms of know-how and experience. It is questionable whether this is feasible both in terms of budgetary allotment and competency development. The expertise and experience needed to effectively enforce what is proposed is extensive, and the levels of readiness and diligence within the regulatory agencies have turned out to be wanting during the past crisis.

The systemic risks that are the point of concern in the industry have more to do with the global dynamics of capital allocation, structural issues and economic policy rather than institutional practices. While the shortcomings of larger institutions raise the threat level, it is unlikely that systemic risks can be mitigated by a rules-driven governance model. The case of credit

and Systemic Risks

default swaps (CDS) merit attention in this context. Originally devised as an insurance vehicle, they were widely traded as a security, valued and accounted for as a security and carried on balance sheets. The sensitivity of CDS valuation to market dynamics, income growth and the accumulation of counterparty exposure across several levels of counterparty hierarchies led not only to complicated balance sheet management, but considerably diminishes the capacity of insurance in the system.

Going forward, the critical question is, in the context of systemic risk mitigation: should CDSs be regulated as an insurance product and not as a traded security? And correspondingly, what would be the regulatory regime for two parallel governance structures if the two classes of instruments were regulated separately?

The other area where industry-wide risk management could be enhanced is to have central clearing and settlements of over-the-counter-derivatives products, allowing transparency of the settlement cycle to the regulatory authority with on-demand auditing of the trade life-cycle.

The systemic risks have more to do with the global dynamics of capital allocation, structural issues and economic policy rather than institutional practices

There will inevitably be another crisis, and most likely it will arise from circumstances we will not be able to anticipate in advance. If the policy response will consist of additional rules and reporting processes and closing some loopholes and tighter supervision of procedures, then we might expect severity on a similar scale as the recent crisis. On the other hand, if the regulatory reform addresses structural issues that corre-

spond to systemic risks, then we can hope to reduce extreme conditions, have an early warning system in place, and take precautionary measures relatively in advance.

Designing a financial system that removes information bottlenecks and asymmetries in asset pricing signals and provides incentives for allocating capital to productive investments, as opposed to speculative trading, would inherently reduce systemic risk as well. Then, perhaps, we can move forward with more confidence that our actions are in the right direction, and addressing the right issues.

*Sinan Baskan, is director of business development, financial markets at Sybase.
www.sybase.com*

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The Humans Between

Where is the wisdom? Lost in the knowledge...

Where is the knowledge? Lost in the information...

Where is the information? Lost in the data...

Where is the data? Lost in the database...

The above adaptation of a quote from TS Eliot summarizes for me one of the main ways data management can contribute toward minimizing the effects of any future financial crisis. The transformation of data into information is a core process for financial markets, a process in which secure access to consistent, high-quality data is a vital foundation if we are to improve upon past shortcomings.

Much has been written about the causes of the recent financial crisis, with journalists, politicians, regulators, academics and practitioners alike focusing on weaknesses in security valuation, risk methodology, counterparty identification, credit assessment, securitization, incentivization, regulation and the financial system as a whole. In my view, the common theme through all the articles I have read has been that the financial topic being criticized is merely the means through which the risk was manifested, communicated or multiplied, rather than the human behaviors that initially created the risk or uncertainty itself.

For example, securitization enabled managers of mortgage portfolios to become

engineers of mortgage portfolios, incentivized not by the margin between money loaned and money received, but rather by the number of mortgages issued and sold on. Senior managers of financial institutions wanted a concise number to summarize risk, so risk managers and academics gave them value-at-risk to satisfy this need for simplicity with all the weaknesses inherent in this approach. Financial engineers constructed valuation models based on assumptions that fitted the limits of the mathematics rather than the extremes of the market. The list of examples is endless; the interplay of human motivations is constant.

What has data management got to do with human behavior and, indeed, the relationship between behavioral finance and risk? I have been working in financial markets technology for more than 20 years now and so much has changed, but I would also have to say so much has remained the same. In the field of data management, there still exists a gap in understanding between technologists that create and manage IT systems, and the trading, risk and back-office staff that use these systems. The common medium between IT and business staff is data, however both parties have different ways of thinking about, analyzing and understanding the data they need. The



Risk and Data

consequences of not filling this communication gap are increased operational risk, poorer-quality data and an inability to see the risks across the whole organization.

So here is my wish list of some of the ways in which data management can help reduce risk and increase understanding:

- Design your data management solution to serve all front-, middle- and back-office staff and systems. The front office will go on using data whether you choose to ignore them or not, so don't ignore them.
- Represent data as financial objects that are business-friendly—making data easy to understand will improve data quality and benefit all. Data experts are not always experts in database technology.
- Decide whether you are going to fight or embrace the usage of spreadsheets and spreadsheet data. Spreadsheet data usually exists for a reason—understand what the reason is and decide if your solution needs to do anything about it.
- If you cannot easily add new asset classes and custom fields to your data management solution, do not be surprised

when front-office staff revert to using spreadsheets and your risk and product control departments do not know what is going on in the front office.

**Financial engineers
constructed valuation models
based on assumptions
that fitted the limits of the
mathematics rather than the
extremes of the market**

- Do not limit your thinking to just the traditional data 'silos' of reference, market and counterparty data that the data management market has defined, and ask yourself if there are other datasets—such as model data and

market scenarios—that it would be beneficial to store and make consistent across users and systems?

- Don't ignore analytics and the resultant derived data in your data management solution—your users won't ignore this most valuable of data even if you do.

Users and consumers of data will always find the data they need from somewhere, so make sure your data management solution is not one that users work around, but rather one that users want to contribute to and become part of.

*Brian Sentance is CEO, Xenomorph.
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Top Priority

Inside Reference Data speaks to Dayle Scher, research director, investment management, Tower Group, about the types of projects firms are currently prioritizing



Dayle Scher,
Tower Group

Where does data quality rank as a business issue for firms?

It ranks as a top business driver. The desire for improved data consistency across applications, the industry's collective concern over the risk associated with inaccurate or inconsistent data, and the desire to reduce manual processing are all driving the industry to focus on data quality and data management projects. Added to this is the impact increased scrutiny by both regulators and investors will have on reporting, and the need to have the necessary data elements easily accessible, not to mention accurate.

Is the increased focus on mitigating operational risk and improving data management reflected in budgets?

That's a good question. We believe data management will always be a top budget consideration, but that operations will probably draw more budget share in the near future as firms and investors recognize the importance of internal controls and processes beyond the front office. In the past it's been more about rates of return or performance. Now, consultants and clients will want to

know more about the plumbing in addition to how the fund manager has performed.

What should third-party vendors focus on to better meet client needs?

In terms of market data, third-party vendors should focus on transparency to their clients, just as those firms are being pressed to provide transparency to their clients. For example, evaluated pricing vendors must provide a clear view into how their calculations are derived. In terms of data management applications, vendors must demonstrate their solution can address counterparty data management and reference data so clients can leverage their investment.

What part do risk units play in prioritizing data management projects?

We expect risk units will play an increased role in prioritizing data management projects, particularly those center around the internal controls process surrounding the flow and use of data across the enterprise. The increase will be spurred by the corresponding increase in priority on the part of investors, regulators and consultants.

Understand the risk beneath your data and models



Whether you're running an intraday VaR calculation, revaluing a multi-asset portfolio or backtesting a trading strategy, the quality of the data you base your decisions on is crucial to your success.

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