

# Inside Reference Data

November 2011

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## Business Entity Data

Special Report



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## Editor's Letter



### The Means to Implement LEIs

The Virtual Roundtable in this special report provides an exclusive insight into how burgeoning amounts of securities data are creating a need for data management projects even outside the mandate for meeting a legal entity identifier (LEI) standard.

Roundtable participants, especially from financial services firms, blame missing or low-quality information for their inability to get a full picture of an entity that is the basis for a security. Philippe Rozental of Société Générale says his firm addresses this by having at least two providers for each data point, even though this is more costly and requires continuous effort to find and choose providers, test them for long amounts of time, and adopt controls. Genevy Dimitrion of State Street identifies a need for cross-referencing sources, establishing a centralized data repository and for firms to put aside control of content in favor of collaboration in support of the LEI initiative.

Data integration has also become a “must,” says Rozental, when calculating global exposures. Using a single data copy to calculate risk exposure or independent prices for complex instruments can reduce costs and issues with calculation, he adds.

Aside from the LEI standard, panelists say new regulations such as Solvency II reporting rules and value-at-risk calculation requirements for Ucits IV regulated funds also should be considered as part of business entity data management efforts.

Whatever the approach to data management projects necessitated by LEI and other new rules, service providers will have a role to play, as Capco's Sean Culbert indicates in a News Review piece in this report. The LEI alone is driving many changes in firms' responsibilities and what will be required of them.

Yours sincerely,

A handwritten signature in black ink that reads "Michael Shashoua". The signature is fluid and cursive.

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## News Review

### LEI Standard Creates 'Cottage Industry' for Mapping

WASHINGTON, DC—The legal entity identification (LEI) standard put in place by the Office of Financial Research (OFR) in July will generate more data for firms to track and manage, creating opportunities for service providers while burdening investment firms, according to industry observers and service provider executives.

Sean Culbert, a partner and co-lead of the finance, risk and compliance practice at financial industry consultancy Capco, sees a “cottage industry” growing around mapping the LEI data. “You can see small firms out there asking to let them deal with chasing this down for you,” he says. “Some of the bigger banks offering clearing services are looking for ways to be stickier,

because the margin compression within the clearing industry will clearly be an issue. Bigger banks have to get stickier so the buy side doesn’t just hop from one clearing firm to another looking for the lowest-cost transaction. This may be a way for them to add value-added services just on the mechanics of clearing and settling a trade.”

Industry associations have made moves to determine how the LEI standard will be administered. In July, the Global Financial Markets Association recommended Swift as registration authority, DTCC to collect requests for new LEIs and store reference data on each LEI, and Avox as validator of the LEIs.

*Michael Shashoua*

### Industry Welcomes G-20 Statement on Support for LEI

Industry participants welcomed the October 15 expression of support for the legal entity identifier (LEI) from the Group of Twenty Finance Ministers and Central Bank Governors (G-20), despite some disappointment the statement did not go further.

“We underscored our support for a global legal entity identifier system which uniquely identifies parties to financial transactions with an appropriate governance structure representing public

interest,” the G-20 finance ministers and central bankers said.

London-based Mark Davies, head of reference data, RBS Global Finance Services, says although the statement contained little that is new, every expression of support for the LEI is important. He says regulators must start to write LEI into rulemaking and emphasizes the priority is now establishing a governance structure.

*Nicholas Hamilton*

## Euroclear, Capital Precision Team on Shareholder IDs

Euroclear, the provider of domestic and cross-border settlement and related services, and Capital Precision, the international capital markets intelligence provider, have signed a co-operation agreement to centralize the provision of worldwide shareholder identification data to equity issuers in key markets.

Euroclear will work with issuers seeking to identify their shareholders worldwide. Capital Precision, part of King Worldwide Investor Relations, a financial communications and stakeholder management firm, will complement the home market shareholder record received from Euroclear or the issuer, by identifying the issuer's shareholders from outside the issuer's home market.

Capital Precision will also perform its information analytics to provide added-value benchmark and shareholder profile information to the issuer. The joint service offering is expected to cover equities issued in the five markets where Euroclear operates as a central securities depository—Belgium, Finland, France, Sweden and the Netherlands.

The centralization of the identification data will meet a client need for transparency, says Brussels-based Mohamed M'Rabti, director of product management at Euroclear. "Through this agreement, we are able to provide issuers with a one-stop shop for shareholder information," he says.

*Nicholas Hamilton*

## WFIC: LEI is Data Management Game-Changer, Say Practitioners

The legal entity identifier (LEI) will be a positive global game-changer, according to an audience poll at the World Financial Information Conference in San Francisco in October. "The retail industry would not have been what it is today without the barcode," said Francis Gross, head of the external statistics division, in the directorate for general statistics, European Central Bank.

## Mapping and Risk Analysis "Follow LEI Implementation"

Legal entity identifiers (LEIs) are an important first step that should be built on in the future by mapping counterparty data on instrument data and adding risk analysis functions, representatives of service providers said at the European Financial Information Summit (EFIS) in September. Philippe Carrel, global head of governance, risk and compliance advisory services, Thomson Reuters, and Renato Lima, head of EMEA data solutions sales, Bloomberg, said their companies are committed to LEI, but hoped it could provide further information in the future.

# Business Entity Data: Setting Value and Completeness Priorities

*Inside Reference Data* gathers leading industry professionals to discuss crucial issues concerning securities identifiers

**Data professionals are under pressure to add immediate business value. What business entity data projects should be prioritized to deliver quick-wins?**

Philippe Rozental, head of asset servicing at Société Générale Securities Services: Given the continuous increase in market data costs over the past two years, custodians should carefully manage a portfolio of data providers, specially focusing on quality and adequacy at meeting business needs. Quality management, which includes respect for timelines, is crucial to avoid mispricing or failures to respect contractual cut-offs. Adequacy at meeting business needs means alignment with new regulations like Solvency II “look-through” reporting or value-at-risk calculation for Ucits IV regulated funds.

Genevy Dimitrion, vice president, global product management, State Street: Data

has been and remains the most critical component in the transaction lifecycle. Lack of standard information, as well as multiple sources of necessary information, has caused inefficiencies and duplication across firms.

One of the most critical issues is for firms to have a centralized governance process to support the management of data that is shared across business lines. Working with industry associations in the creation and definition of standard data formats and sources is critical, as is aligning all business areas and recognizing the best-of-breed models to support their business.

At State Street, we have been focusing on areas where we can help our clients evaluate their counterparty risk exposure across all their external data sources. Additionally, we see the need for more refined industry standards to support classifications of data. For



example, the industry standard CFI is and has been assessed for several years, and it is clear that it cannot support our current business and needs to be revisited. Support for centralized sources of data is also another area where financial services firms will benefit.

**Tim Lind, global head of strategy, enterprise content, Thomson Reuters:** Right now, firms have to focus on efforts that enable them to source, verify and map legal entity data in a consistent and effective manner. A must to be able to understand and untangle corporate hierarchies fully, this will also prove to be necessary to manage client on-boarding, portfolio compliance, and counterparty risk associated with concentration exposure. While quick wins do not tend to come hand in hand, we see many customers assessing their data sourcing strategy to understand which activities actually add value to their operations. Institutions are questioning the costs associated with collecting the core data such as address, country of origin, and corporate structure, and looking for more effective alternatives to license that information from third parties.

**Jennifer Ippoliti, practice director, data management, Wipro Technologies:** A project isn't considered a "win," quick or otherwise, unless its business value



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can be measured. So the definition of a "quick win" then becomes a short-term project with a solid, measurable business case. Projects that deliver process efficiencies or shift workloads from higher to lower cost resources are good candidates for quick wins. For example, a data quality cleanup initiative that takes low-skill data quality tasks away from high-cost credit officers or loan officers, and moves it to an offshore team, will have clearly measurable cost savings.

Another useful measure of business value is customer satisfaction, such as reducing the amount of time it takes to onboard a client. I have seen several successful workflow projects that gained funding because of expected improvements in the on-boarding process—not only for clients, but also due to internal process efficiency.

Finally, data mapping and cross-reference projects, while they do not

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necessarily have an obvious business value, are critical first steps to initiatives such as LEI implementation, and are therefore vitally important. The most forward-looking firms see legal entity data improvement as a business imperative that far surpasses the regulatory requirement, and are already planning to take advantage of new opportunities offered by this standardization to improve and streamline their risk management and back-office operations.

### **What data types should be linked to ensure risk management and compliance have a complete picture of an entity?**

**Rozental:** This covers a large set of data! For specialized OTC service providers like us, this consists of all necessary underlying data to be able to calculate independent pricing and reconcile with counterparties' prices. The underlying

data can be, for example, implied correlation or volatility surfaces.

**Dimitrion:** Within the realm of financial services, data needs to be categorized in a multitude of ways from customer to counterparty to account data. With respect to the actual data required for full transparency about an entity, information about its capitalization and share ownership would be required to be able to calculate actual exposure and guidelines compliance. Of course, this is assuming we have a way of accurately rolling up and linking all related underlying entities. This is where we believe the legal entity identifier (LEI) will have value. Really any data that makes it easy to identify entities is required to fully assess risk exposure of transactions, collateral, and for regulatory and client compliance.

**Lind:** Identifying entities is only the first step. Interconnections and linkages between issuer and instruments as well as outstanding positions and transactions are an essential first line of defense for compliance and credit risk management. However, our vision is much broader. We believe there will be a renaissance in the field of risk management that will demand a much broader array of financial information related to a legal entity. This will include news

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sentiment analytics, corporate actions, balance sheet information, and monitoring any changes that may lead to a reassessment of market or credit risk. The data challenge and the need for comprehensive linkage is much broader than legal entity data alone.

**Ippoliti:** This could be a topic for an hour-long panel discussion! To name just a few:

- Linking accounts to counterparties, so that there is no ambiguity in processing transactions
- Linking transactions to counterparties, so all parties to a trade know what entities are involved
- Linking SSIs to entities, to shorten transaction processing timelines and reduce trade breaks
- Completing the legal entity hierarchy by linking legal entities to their immediate parents all the way up to the ultimate parent, which will greatly facilitate calcu-

lating counterparty exposure

- Linking issuers to entities, to minimize upkeep of records that are often stored in separate masters (issuers in the security master, and entities in the client master)
- Linking entity-level credit ratings, which are typically stored in the security master, to entities in the client master (only possible once the previous linkage has been completed)

**Rui Carvalho, managing director, enterprise solutions, S&P Capital IQ:** First of all, having accurate counterparty, geographical and sector data integrated in a timely manner is vital to obtaining a deeper risk assessment of any entity. Additionally, another key component to a complete picture of any entity is the ability to link or obtain accurate links for any given entity to its ultimate parent or their subsidiaries. S&P Capital IQ will be committed in providing accurate and timely business entity linkage solutions in the coming months. Lastly, additional credit, economic and certain types of referential data all play key roles in delivering that true understanding of the complete picture of an entity.

### What can firms do to maximize the future benefits of the global legal entity identifier?

**Rozental:** First, it will be necessary to adapt in and out flows with those

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*Genevy Dimitrion,  
State Street*

new parameters. Then, there will be optimization projects to adapt the databases and better manage market data costs for each entity. This will require transversal data projects covering

all business entities to ensure alignment with this new parameter.

**Dimitrion:** Most importantly, firms can contribute to the design and creation. It is very rare that participants have the opportunity to be engaged from the onset of a new regulatory requirement. With LEI, our firms can leverage existing standards bodies/utilities including DTCC and Swift as well as existing infrastructure and data formats (ie, BIC structure) to support this initiative. This will allow firms to leverage existing infrastructure. That said, the

**"Having a clear vision  
of hierarchies of  
relationships within  
financial institutions  
is a must"**

*Tim Lind, Thomson Reuters*

initiative is a sizable undertaking for the industry. Upon the conversion to LEI, the most important need will be around the governance and support of the standard. Firms can start analyzing how they can map and implement the new LEI in all their relevant systems so that eventually the financial industry can talk the same language when communicating among themselves, whether that is for trade communication, regulatory reporting or other areas.

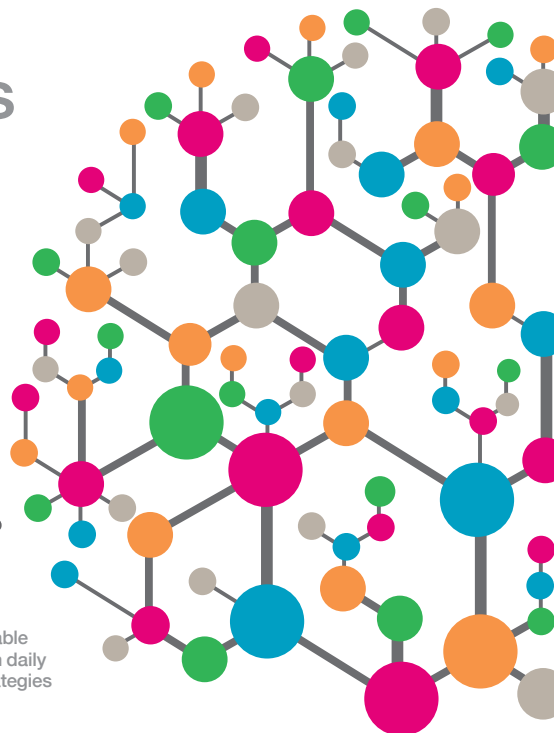
**Lind:** The first step is to understand the likely scope in which LEIs will be used and set logical priorities. Engagement with industry associations and tracking regulatory proposals related to disclosure will help provide a better understanding of how the new identifier will impact internal processes and external communication of financial data.

The LEI is a foundational standard that will improve the industry's ability to link and share information on the legal entities we do business with, but the standard will not be appropriate for all business activities. It will not be practical or feasible to replace many internal account number identification structures with LEI. So it is critical to be very clear on where it will add the most value and be pragmatic about how adoption will be phased. While there are no specific deadlines in place for the



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identifier's adoption, focusing on being ready now will pay off once requirements around the upcoming legal entity are set in stone down the line.

**Ippoliti:** The long-term benefits of a fully implemented global legal entity identifier are substantial, particularly in the areas of credit risk, corporate actions management and transaction enrichment. Post-trade clearing, settlement and allocation could be automated to an extent never seen before. The single most important thing firms can do today is to cleanse, validate, and most importantly, cross-reference their existing entity data to their proprietary identifiers and existing third-party identifiers. The cleaner your entity data is today, the easier it will be to implement the LEI, and the more future benefits will be available to you. Once a reliable index of entity identifiers exists, then retrieving the correct LEI needed to process a transaction becomes as simple

as a call to a web service or a query of a database, as opposed to years of integration projects aimed at inserting the LEI into every settlement system, reporting system and risk management application in the organization.

**Carvalho:** Firms can maximize the benefits of the LEI in a few ways. Understanding what the LEI will represent, when it will be available and how a firm can integrate it into its infrastructure today are all very important aspects of how a firm will benefit; these should be your building blocks. One specific area firms will benefit will be in the derivatives space. Regulators in general have been pushing for greater levels of automation, standardization and transparency in the over-the-counter derivatives market.

The LEI is really going to help bring transparency in this area by improving overall market integrity. On one hand, regulators will benefit in having a consistent entity identifier, which would allow them to look at transaction participants across product categories to understand existing and emerging risks better. On the other hand, firms that need to manage systemic, transactional and credit risk will benefit from all these improved efficiencies.

Additionally, I encourage market participants to visit Swift's website.

**"Having a data governance program within an organization will allow a dedicated team to oversee the quality, standards and policy around data is being followed"**

*Rui Carvalho, S&P Capital IQ*

The site has great information about the LEI and its timing. Lastly, attending industry webinars and conferences where the LEI will be discussed is a great way to obtain progress reports on the LEI initiative.

**Market participants often say the main reason for difficulties in getting a full picture of an entity is that the information is either missing, or of poor quality. What can firms do to overcome this challenge?**

**Rozental:** We covered this risk by having at minimum two data providers for each data point of our golden copy. Despite the cost of this solution, this allows us to have quality pricing services recognized by clients and also control bodies such as external auditors. Nevertheless, this also means continuous efforts to find and select providers, long testing periods to ensure robustness and resilience of the providers, challenge costs and adapt controls. This also sometimes leads to the need to review overall timelines.

**Dimitrion:** While we agree that missing and poor data is an issue, we feel the bigger issue is around the ability to accurately manage the data due to lack of standards and the complexity of the data when it comes to parent-child relationships. For example, each business

unit may have a different view on what constitutes a parent-child relationship. A further complication is that industry cross-referencing sources do not exist. Overcoming these challenges will require firms

to put aside their need to “control” the content and emphasis on legacy processing and work together to not only support the LEI initiative but to leverage this as an opportunity to address other key data sourcing issues. A centralized repository of all entity data managed by a utility and maintained would be invaluable to the industry.

**Lind:** Having a clear vision of hierarchies of relationships within financial institutions is a must, and with this the need to know not only the ultimate parent company, but affiliates, special purpose vehicles, percentage ownership, and the whole corporate structure. The task is further complicated as in-house sourcing, verifying, mapping and maintaining legal entity data remains a highly complex, resource-intensive and prone-to-error exercise. The global nature of



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most portfolios and the need to monitor changes and maintain legal entity data in today's volatile market environment further raises the bar.

It is with such challenges in mind that we have expanded Thomson Reuters' legal entity data solution. The solution requires the scale of a global operating model, the appropriate technical architecture, and most importantly, an army of experts. The ambition to cover a million entities from 250 markets means sourcing legal entity data is no longer a boutique business but requires a 360-degree view of regions and industries globally, language skills, and the experience to understand the complex dimensions of modern business entities. Just as critical, processes and sources need to be transparent and auditable to ensure confidence that the results accurately reflect market reality.

**Ippoliti:** There are countless root causes for poor-quality entity data. Stale data is a typical culprit, particularly when records are entered manually. I once worked for a firm whose loan department set up new loans manually. The setup process included looking up the credit rating for the loan issuer online and typing the rating into the loan record. However, the maintenance process did not include a periodic review or refresh of the ratings, so many

of them became inaccurate. This negatively affected our capital charges. We were able to solve the problem by 1) changing the setup process to eliminate the manual data entry, and 2) providing a data feed for the ratings so they would be maintained by an external vendor.

The lesson learned is to not allow anything to be entered manually unless you have a plan to keep it up to date. That plan might be a regular schedule of source document validation and refresh, similar to what is done as part of some know-your-customer processes.

Another key principle to improve data quality is to live by the old saying "Garbage in, garbage out." For example, if you don't tightly control the creation of new business entities, you will end up with duplicate and conflicting records in your database, missing fields, abuse of free text fields, and countless other data quality headaches. It's essential to know who can create and modify your records, to know what processes they are following, and to enforce data quality guidelines at the point of data entry through the use of tools such as employing fuzzy logic searches, setting data quality rules at the database table level, and periodic data profiling exercises to ensure your controls are functioning correctly.

**Carvalho:** One way is that firms can

establish sound data governance programs. Having a data governance program within an organization will allow a dedicated team to oversee the quality, standards and policy around data is being followed. This could act for a firm within its own foundation or for the firm's process of working with its vendors. It is important to have data metrics around such standards and policies, especially around the completeness, accuracy and timeliness of data. S&P Capital IQ has a data governance program today, and has been extremely effective in improving overall operational and commercial efficiencies. Once your data policies and standards are set, followed and measured, you will start to see how rich your data can be. The LEI will just add to the richness.

**How important is effective data integration for a firm to be able to calculate exposure to entities and mitigate risk?**

**Rozental:** In many cases, this is a 'must' and not only a 'nice to have.' This need is driven by several regulations in the different industries such as funds or insurance. To have the capacity to calculate global exposure, business entities should integrate different data sources into a single data copy, ensure data quality checks and cleansing. In many cases, to have a sourcing partner

like SGSS to calculate risk exposure or independent prices for complex instruments can help mitigate those issues and reduce entry costs to calculate those risk indicators.

**Dimitrion:** It is extremely important and it ties in with one of your earlier questions. The reality is that once you have the standard and everyone is using that standard, it becomes much easier to manage your business and service your clients. Without standards, firms cannot effectively calculate exposure or mitigate risk, which is why the OFR started with LEI.

**Lind:** The goal remains being able to assess compliance, market and credit risk, comply with regulatory disclosure and have linkages between different data types. Going back to basics to ensure the core hierarchy and entity data are effective and in place is crucial to enable this. The alignment and governance of counterparty data across an institution is the first essential step to ensure linkages between data types and risk hierarchies are both possible. While some may opt to take on and give priority to more complex risk management projects, effective data integration constitutes a critical layer leading to the transparency goals both the regulatory bodies and financial institutions are setting.

## Sponsored Statement

# A New Opportunity

Back in November 2010, the US Treasury's Office of Financial Research (OFR) called for the adoption of a legal entity identifier (LEI). Less than a year later and now backed by a consortium of trade associations, the LEI initiative has facilitated a vigorous interest around the globe to bring an end to the counterparty data identification challenge.

Aiming to create an accurate and unambiguous identification standard for legal entities engaged in financial transactions, the LEI could remove legal entity identification hurdles.

The timing couldn't be more apt, as the need to assess counterparty data quality and risk while having a complete view of entities is on the rise.

Acting like the US Social Security number or UK National Insurance number, the LEI represents a critical opportunity to change the way the industry thinks about and tackles risk management. It would not only identify institutions, but would also become the common key to link financial activity, helping assess credit risk with an entity or related affiliates. By helping automate the exchange of information between financial institutions and regulators, and eventually between market data

vendors and their customers, it would also help firms manage counterparty and concentration exposure.

The potential data linkages that could be made available via the LEI remain endless. This is the even more the case when considering the links it could facilitate when applied to valuations, machine-readable news, fundamental data and sanctions data.

As the industry awaits the OFR's specific rule-making, the ultimate goal remains to ensure the global identifier is reached via international consensus. Initially a US-led initiative, trade associations are actively engaging regulators in Europe and Asia to facilitate a harmonized adoption for a successful and consistent outcome.

## Right Timing

Discussions around legal entity identification and the need for a global LEI have long been embedded deep within the reference data industry. The 2008 financial crisis revealed the magnitude of the challenge even further.

The inability to easily identify an entity, its corporate hierarchy and link entities to outstanding positions, transactions and other data that could be





used to assess counterparty risk, generated an even more challenging environment for firms needing to adequately measuring their risk exposure.

The crisis highlighted that it is imperative to improve the way market and counterparty risk information is acquired and assessed. And with this need comes the need for a common language. Transactional processes such as trade execution, settlement and reconciliation employ codes and symbology allowing institutions and vendors to automate their businesses and exchange information. However, the industry still lacks a standardized and globally recognized method to identify the parties involved in a transaction.

This is not the first time the industry has tried to tackle the legal entity identification challenge. Yet, on this occasion, the differences are remarkable.

Regulatory support, the missing agent in the past, has proven to be critical for the OFR-led LEI initiative to gain a new level of credibility and backing. The lack of invested interests or proprietary linkages, factors whose presence defined and led past initiatives to an inevitable demise, have also been crucial to gain the support of financial institutions.

However, market data providers must also play a role, and their backing will be essential for the LEI initiative to succeed. The identifier can only reach its full potential if providers have a significant role in both contributing information and ensuring its consistency.

Using LEI to identify records within vendors' own products will encourage further adoption by institutional customers as they access that market data information. The adoption of the identifier will give market data providers a unique opportunity to build value-added content, from the full hierarchy of relationships within a global institution.

In the world of legal entities, there is no linchpin to connect institutions' systems with one another or with their market data vendors. The securities industry now seems determined to address this. Today's efforts may only represent the initial steps for change. But, as the focus starts to turn to the potential the LEI could have in the future, the industry must commit to supporting it to ensure the well anticipated, new global standard can be a total success.

*Tim Lind is global head of strategy and business development at Thomson Reuters.*

# A Call to Order

*Inside Reference Data speaks to Ed Ventura, president of Ventura Management Associates, about the importance of business entity data in a volatile marketplace and what the legal entity identifier means for the financial industry*



Ed Ventura,  
Ventura  
Management  
Associates

## **How has the level of importance placed on business entity data by financial institutions changed in the last decade?**

The level of importance has significantly increased for a number of reasons, driven first by the terrorist activity of 9/11 and more recently by the global financial meltdown. Knowing who is who and where they fit within the global financial marketplace is important for both financial stability and international security.

## **What are the most common problems you encounter in relation to managing business entity data?**

The traditional focus of business entity data was for know-your-customer rules. It was typically collected and maintained within a business silo and not readily shared. Today, the data needs to be shared; therefore, we see companies wrestle with gathering, normalizing, enhancing and distributing entity data

to develop a complete picture of a business entity.

## **What are the greatest benefits of the legal entity identifier (LEI)?**

The LEI accomplishes what it set out to do—provide regulators with a complete report of risk within an organization to mitigate systemic risk. Along the way, it is forcing the industry to take a deep look inside itself with operational, technical and governance practices evolving in support of implementing the LEI.

## **What are the key challenges end-user firms face to implement the LEI?**

Firms need to get their data in order by consolidating and normalizing data from the varied silos within their companies, either virtually or physically. They will also need to establish a strong data governance program to control, maintain and report on activity, holdings and the associated risks.





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