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What's driving reference data?

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An interview with
Interactive Data Europe's MD,
Roger Sargeant

Further enhancements
to risk management offering


Interactive Data

The widespread ill treatment of reference data is nothing new – indeed it has been like that for a very long time. So what is driving the need for change? Namely a renewed focus on meeting regulatory requirements, plus the desire to reduce both risk and cost

WHAT'S DRIVING

We no longer need to be told that reference data is 'the lifeblood of transactions' and that it is of critical importance. If we cannot trust the content and processes that underpin our decision-making, how much faith can we place in our decisions? We could have long discussions on what exactly reference data encompasses. But are we dealing effectively with the reference data challenge? And what of the risk?

On average reference data makes up approximately 70 per cent of a transaction's content. Further to that, 60 per cent of all failed trades arise as a result of poor or inaccurate reference data. Besides overcoming operational issues that can result from imprecise data, the increased interest in reference data is borne out of several trends, including mounting government regulations, capitalising on new business opportunities, such as algorithmic trading, and mitigating corporate actions processing risk.

What is reference data?

An Interactive Data view

Generally, all content apart from pricing and transaction-specific data. In other words, content that must be referred to in order to process a transaction.

Reference data includes:

- Descriptive data
- Entity data
- Event data

Operational risk

In order for a firm to effectively run its business, it is critical to have accurate, consistent information flowing throughout its organisation. Incorrect data in one group can often have far-reaching repercussions across the business, impacting everything from trade processing to customer account statements.

For instance, while trade processing failure rates have reduced in percentage terms in recent years, volumes have clearly increased dramatically. The result, of course, is a much greater number of failures that must be rectified. This problem will not go away by itself and with the timing of processing becoming ever more important, the failures are becoming increasingly unacceptable from an operational perspective. In some cases this can negatively impact the business relationship with customers, or even cause firms to be more susceptible to litigation. There is no escaping the fact that prevention is far better than cure; the content must be cleaner and better interpreted than it is at present.

Increasing regulation

The global financial services industry is facing successive waves of new regulation: UCITS III, BASEL II, MiFID, Reg NMS, the Patriot Act, Sarbanes-Oxley, Know Your Customer... Who knows what's next? What will we need to keep track of tomorrow and how much history will be required? The European Union Financial Services Action Plan is far from complete and EU member states are compelled to implement legislative decisions made at the EU level into regional law. In many cases, the risk of non-compliance appears to be withdrawal of an organisation's European passport to operate in EU jurisdictions other than its own. If that were to be enforced, how could a global business retrench its business within its regional borders overnight? Concern over compliance with existing regulatory commitments is a powerful driver; fear of the unknown is proving to be an additional worry.

cover story

AVING REFERENCE DATA?

Capitalising on new business opportunities

While many firms have a laser focus on strengthening their core businesses while working through the challenges associated with meeting regulatory requirements, others are also looking to new markets for future growth. In recent years, there has been an increased interest among many financial services firms in algorithmic trading and investing in complex instruments, such as derivatives.

To further illustrate the algorithmic trading example, it is accurate and timely content that fuels the algorithms. There is little point in hosting algorithmic systems on super-fast next-generation architectures in order to reduce the decision process and execution times by fractions of milliseconds, if the underlying reference data is missing and must be keyed in by a clerk when he returns from lunch. It is critical that firms ensure that there are no break-points such as this in their workflow. By maximising workflow efficiencies and automating as much of the securities lifecycle as possible, firms can help attain the speed that is paramount to achieving their business goals.

Corporate actions processing risk

The more time passes, the more firms are suffering increasingly alarming processing failures ...always silently and without fanfare. But judging by the resurgent interest in automated corporate action projects, the tide is once again turning. The general regional and asset type diversification of assets under management has only served to make the task of asset management – and in particular corporate actions processing – more challenging. Getting the static data right is one thing, but then repeating the feat with event data on an ongoing basis – and with ever increasing volumes and new, unfamiliar markets – is quite another. Add to that mix a sprinkling of regional differences in disclosure practices and the result is a great recipe for significant reputational risk.

Seeking solutions

Prior to the current high level of reference data awareness, it was quite clear that the industry had no interest in dealing with an issue that was considered to be 'in containment'. The good news is that

as a result of this increased awareness, the industry has now mobilised an army of reference data heads, managers, tsars and consultants to fight the good cause. The acid test, however, is not what industry pundits consider important, but what the industry's end-users worry about ...and there has been a marked increase in clients looking for reference data solutions.

FT Interactive Data has developed a wide range of offerings that can help firms meet their increased credit, market and operational risk management requirements. Such services include the groundbreaking Fair Value Information Service, evaluations for thinly traded securities, risk and analytical data, business entity data, EUSD data ...and of course, high quality reference data* including ISO 15022-formatted corporate actions data.

FT Interactive Data's reference data can aid compliance with capital adequacy, best execution and transparency. For example, its new business entity data service is invaluable to help customers meet their requirements for risk management and compliance under regulations such as UCITS III. FT Interactive Data's European Union Savings Directive (EUSD) data service can provide an exceptional depth of data to help understand the effect of the directive on individual securities, assisting organisations to report information or withhold tax across different jurisdictions.

FT Interactive Data has been working hard over recent years to integrate its products and services – equity, debt, fund, index, foreign exchange, derivatives, commodities' prices, fixed income evaluations, corporate actions information, and modelling and analytical tools – into a single set of services that can be accessed through FTS, a convenient, web-based platform.

**FT Interactive Data was awarded the 2005 B.I.S.S. (Benchmarking International Software Systems) gold award for data services, surpassing the benchmark tests set by the Reference Data User Group (RDUG)*

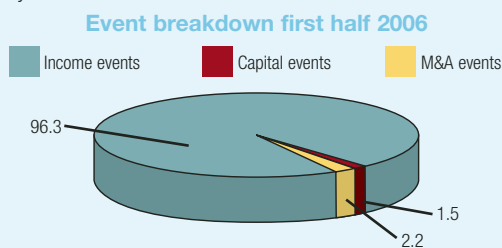
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ISO 15022-formatted corporate actions services

In 2005, FT Interactive Data connected to the SWIFT network so that customers can receive their ISO 15022-formatted services in a very similar fashion to notifications from their other counterparties. Customers can now perform compare and contrast functions on the content and so create 'golden copy' records, and perhaps pre-populate records with vendor content in advance, whilst awaiting counterparty communications. FT Interactive Data sees this development as a major milestone in the process of making content and services easier to consume, whilst pushing the value of such services towards the content and functionality rather than the format and delivery channels.

We now have the means to enable coding of content to such an extent that STP becomes a reality. But at the point of consumption there is often a marked difference between the automated processing rates of static data and event data: the latter always seems to lag behind. The problem appears to be one of interpretation and trust in the processes and applications. However, once a reliable source is found, the benefits can be considerable (see diagrams).



FT Interactive Data (Europe) event breakdown first half 2006

