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Business Entity Data

Special Report



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Editor's Letter



Needs Identified

The more than a decade-long debate about the need for a universal business entity identifier seems to finally be moving in the right direction. In a poll at the ISITC Europe conference in London in November, 68% of conference-goers said a globally acceptable business entity identifier is achievable in two to five years. A few years back, the result was likely to have been quite different.

But there is a reason why market participants are more optimistic that there will be an identifier. Regulators are increasingly involved in the discussion, with the latest move being the US Department of the Treasury's Office of Financial Research issuing a statement on legal entity identification for financial contracts. The statement, which firms can now provide feedback on, announced the Office's intention to "standardize how parties to financial contracts are identified in the data it collects on behalf of the Council [the Financial Stability Oversight Council]."

Due to regulatory involvement, the expectation is that development in this previously slow-moving space will accelerate. Now is the time to stay awake and not overlook the importance of what is going on. In this *Business Entity Data* report, which includes comments from industry experts and a news review, we hope to help readers stay on top of the latest developments and keep the excitement surrounding business entity identification alive.

Yours sincerely,

A handwritten signature in black ink that reads "Tine Thoresen". The signature is fluid and cursive.

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News Review

RBC Capital Creates Global Counterparty Data Team

LONDON—RBC Capital is setting up a new client on-boarding team in Sydney, and standardizing processes globally, according to a speaker at the European Financial Information Summit in London.

The new Sydney team will work together with the Toronto, New York and London teams, and the new global team will have a standardized way of on-boarding clients. “We’re trying to join up processes and create one global team,” said London-based Julia Sutton, director, global head of customer accounts and on-boarding.

The firm plans to go live with the new on-boarding tool in December, and the same data will be sourced globally as part of the on-boarding process. “We need transparency, and we need

to be able to utilize all the tools in our armoury,” she said.

A Foreign Bank Certificate needed in the US, for example, could be added in Sydney when a client is on-boarded by the Sydney team. “As long as we have a system that provides visibility, it should be relatively simple,” she said.

The on-boarding platform will allow the teams to share information, but it also has an entitlement function. Some jurisdictions have restrictions on information-sharing, and Sutton said the new platform will allow the firm to meet these requirements.

The full version of this article appeared in *Inside Reference Data*, October 2010.

Tine Thoresen

“Challenges” Aggregating Data for Single Customer View Requirements

LONDON—The UK’s single customer view requirements may initially appear to be straightforward, but it can be challenging to pull the around 10 reference data items together to become compliant, officials tell *Inside Reference Data*.

Around 800 deposit-holding institutions are required to create and maintain a single customer view (SCV) of each client under the Financial Services Compensation Scheme (FSCS) reform

in the UK when it becomes effective in January 2011.

“There are some significant challenges in aggregating the data into the [required] format from across multiple systems,” says Colin Rickard, managing director EMEA, DataFlux.

The full version of this article appeared in *Inside Reference Data*, August 2010.

Tine Thoresen

'Pick an Identifier and Stick with It,' Say Panelists

LONDON—The industry needs to see leadership in the business entity data space, ensuring there will be international agreement on standardization, according to a panel of speakers at the European Financial Information Summit in London in September.

Julia Sutton, director, global head of customer accounts and on-boarding, RBC Capital, said somebody has to pull it all together. Panelists said there is a need for standards both for data fields and ways to identify a record. In terms of an identification code, the message was that the market needs to agree on what standard to use. "Pick a code and stick with it," said John Mason, chief operating officer, Netik.

Firms currently have to cross-reference as there are a number of codes in use. Darren Marsh, business manager, risk management and compliance services, Interactive Data, suggested it would be useful to "stick a barcode on" the entities. Sutton also said the best way to deal with identification of an entity would be to barcode it.

Yet, panelists said the problem is the range of existing identification schemes. Michael Atkin, managing director, EDM Council, said everyone wants to have a standard as long as the chosen standard is their own.

The full version of this article appeared in *Inside Reference Data*, October 2010.

Tine Thoresen

Asset Control Extends Data Model to Reflect Entity Information

Enterprise data management software vendor Asset Control has completed the first phase of its entity project geared at extending the data model for its AC Plus product line, following an increased focus on counterparty risk management.

The old version of the data model lists instruments, issuers and issues, while the new version will also reflect entity information. The changes are set to help users calculate exposure to counterparties and manage counterparty risk.

GS1 US Joins Forces with Financial InterGroup

Standards organization GS1 US, the US chapter of GS1, which administers the barcode standard for the retail industry, has teamed up with Financial InterGroup Holdings to study how to use the GS1 identification numbering standards system to identify products and business entities for the financial industry.

The groups have met with firms to find out how the standards could best be adopted.

Business Entity Data: Quality Counts

Inside Reference Data gathers leading industry professionals to discuss counterparty data issues post-crisis, and the future for entity identification standards

The financial crisis did not only highlight the need for high quality counterparty data, but also the need for integrated counterparty data. Which data types should be linked to ensure risk management and compliance have a complete picture of clients and exposure levels?

Roger Fahy, director, product management, global data solutions, and Matthew Bastian, director, market and business development, Cusip Global Services, Standard & Poor's: Major financial institutions and sovereigns have been in the news

recently, unfortunately for the wrong reasons. When a bank gets into financial trouble, where that bank is an issuer, firms must link their holdings to deposits they may have with that bank, to invoices expected based on services rendered, and to counterparties on a trade if they are to truly have a 360° counterparty exposure report.

Piecing together the securities holdings component of an exposure report can be challenging and time-consuming. That's because exposure can materialize in a number of ways: via securities and entity issues; through securities issued by that entity's parent,

subsidiary or affiliate; or through an entity's role as an obligor, guarantor or credit enhancement provider on a bond.

In the derivative arena, a trader may think they are trading with one firm, but when the legal department reviews the contract and compares that with the Isda agreement that governs the transactions between the counterparties, it may turn out that it's a completely different legal entity unbeknownst to the trader.

Firms must make the investment to enhance—and in some cases develop—a robust, integrated workflow solution that allows the front-, middle- and back-office to all be reading from the same play book.

Julia Sutton, director, global head of customer data, Royal Bank of Canada Capital Markets: We need to know not just the details of the client we're dealing with, but we also need to know about the family the client belongs to so we can understand total exposure to the group. In addition, we need to know the external rating, if there is one. It helps us understand the capital we need to put aside to meet capital adequacy requirements and it also impacts our liquidity requirements. We need to monitor what is happening to the client and how it interacts with the rest of the group of clients in the same category.

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Meredith Gibson, director & counsel, Citi: It's about knowing who and what. I don't think you can say you have a complete picture of your exposure unless you know who your clients are, what role you are interacting with them in, and what instruments are involved.

What can firms do to prepare for future regulation in the counterparty data space?

Fahy & Bastian: They should collabo-

Virtual Roundtable



*Julia Sutton, Royal Bank of Canada
Capital Markets*

rate with the global regulatory agencies, standards bodies and market participants to understand what is currently being proposed and how compatible the proposed regulations are to their firm's internal systems and processes.

For example, an insurance company operating in Europe must understand what data is required by Solvency II and determine if they currently capture all of the data requirements themselves in a reportable manner, or if they would be better served sourcing that information from a third party.

Typically, it's a combination of augmenting internal capabilities with those of external partners when new regulations go into effect.

Sutton: The main point for me is to get the data cleaned up and maintained.

Everything the regulators may ask for in terms of customer data is going to revolve around our ability to prove that we understand our client. We need to improve our controls and ensure we get it right. We also have to ensure the data is visible, prove we are able respond to changes, and are fully informed about what goes on with our clients. There may be additional fields the regulators want us to monitor, but if we have got our data centrally maintained, adding additional pieces to that should be relatively simple because there will be vendors out there that have that data or can help us get it.

Gibson: The answer is to join [regulatory think-tank JWG's working group] the Customer Data Management Group (CDMG). In the group, firms can agree on standards for areas such as the data refresh policy. Some of the work has already been done, but there are 40 new regulatory requirements that have cropped up over the past year, and broad engagement is required across the supply chain to establish more industry-led standards.

How important is it for firms to assess quality of counterparty data, and how can the quality be measured?

Fahy & Bastian: Firms must buy into

the concept that counterparty data needs to be maintained the way security master data is treated today. Would an institution invest in a security if they didn't have all the critical terms and conditions data? Probably not. So why then would a partial counterparty exposure report be acceptable?

In order to measure and assess the quality of counterparty data, a firm must ask: can we quickly and programmatically convert that day's headlines into practical application so that an accurate exposure report can be provided to the chief risk officer and compliance department when a negative market event occurs? If the answer is yes, then they have a good process in place; if the answer is no, then they still have some work to do.

Sutton: I think it's very important. I don't think we can afford to ignore it. If you control the data properly it follows that measuring it should be relatively simple, but actually it isn't. As an industry, you take one of two stances, I believe—you either go with data distribution and select trusted sources and accept that sometimes there are going to be errors, and perhaps sample check to ensure that you are within acceptable boundaries, or you have a more intense data management layer that checks the data for discrepancies and fixes them before distribution, again accepting

there will still be errors. There is no such thing as perfect data.

The value of clean data is difficult to measure. Anything that has to do with regulatory reporting has to do with data being well-maintained. If the data is clean, there is a cost-avoidance benefit in terms of capital adequacy requirements. Firms can also benefit from having clean data by avoiding fines. I think that when companies are not fined for bad data, this saving could be attributed to good data management.

Gibson: If you do not have a meaningful way to demonstrate you know who your customer is, you are failing. You need to ensure equities, fixed income and foreign exchange all have the same picture of that customer. If not, then you probably have an issue. But if somebody goes in and changes the data, you're back to square one again.

“Firms must buy into the concept that counterparty data needs to be maintained the way security master data is treated today”

*Roger Fahy and Matthew Bastian,
Standard & Poor's*

Virtual Roundtable



Meredith Gibson, Citi

What needs to happen for firms to prioritize implementing a new entity identification standard?

Fahy & Bastian: In short: get ready, because whether out of the standards process or via regulatory mandate, it is coming. Like any standards implementation, though, much of it may hinge on being able to map between the new identifier and any internal codes already in use, especially in the initial stages of adoption.

In preparation, firms would be well advised to compare their internal entity identifier with some of the proposals under consideration to determine how compatible the two are. For example, are they the same length? Would the new identifier collide with any other codes flowing through internal

systems? What's the scope and quality of any related data?

That sort of background homework can save lots of headaches when industry finally comes to some sort of decision. Also, it will be crucial to have buy-in throughout the organization for the implementation to go smoothly. Reluctant business silos can wreak havoc with this sort of initiative.

Sutton: Firms have their own internal standards. If there was an industry standard, we could map between the internal standard and the industry standard, but we would be insane not to adopt it.

To adopt a new standard, we would have to communicate what was happening to the data to all of our users. But the change from one standard to another should be relatively easy. If you haven't got an internal standard, I would advocate that you get one so that the introduction of an industry standard will be about tweaking and not about doing a big bang adoption.

Gibson: They need to see a fine from the regulator or a regulatory mandate. There is a need for some type of action from the regulator to put regulatory-driven data standards on the agenda. In the past year, we have seen more than £10 million in transaction reporting fines in the UK, many of which are reference data-relat-

ed, but the message is only just starting to filter upwards.

How viable is it that the financial industry will agree on a defined company name standard and start using one name for one client in the future?

Fahy & Bastian: The momentum behind standards, not just for entities but across the board, has perhaps never been stronger.

In the wake of the financial crisis, both market participants and the regulators are coalescing around the need for a common view of instruments, issuers, counterparties and obligors. Therefore, it isn't a stretch to think that company naming conventions will become part of the standards agenda. To a certain extent, that sort of development is already under way on a global basis with ISO 18774 for the Financial Instrument Short Name (FISN). One challenge, though, that may complicate standardized company names is that it's not just a matter of convention, but also translation. Barring some level of agreement on an industry-wide *lingua franca*, companies based in multilingual countries will add a level of complexity to the exercise.

Sutton: If there's a core of four to five banks agreeing on a standard to adopt, I'm willing to change to come in line to

get a straw-man proposal for a standard. Someone has got to say that this is what it should be, and who agrees with me? Then we can go from there. We have various working groups in the market, but let's all get together. Even if it's just a few from each group, this is something it should be possible to agree on. It's not rocket science. Perhaps we could take it field by field—we just need to get going.

Gibson: At the current rate of progress, I'm not very optimistic about it. I think we have a lot of people admiring the problem, and very few people who have a solution. I went to the MiFID II Review hearing in Brussels in September, and what was said there was that if the industry does not sort itself out, the solution will be mandated. I think regulators are out of patience.

“In the wake of the financial crisis, both market participants and the regulators are coalescing around the need for a common view of instruments, issuers, counterparties and obligors”

*Roger Fahy and Matthew Bastian,
Standard & Poor's*

Standards Deliver

Inside Reference Data speaks to Mike Atkin, MD, EDM Council, about the latest developments in the entity identification space



Mike Atkin, EDM Council

Who should be creating a business entity data standard?

Regulators do not want to be in the business of creating standards. They want the industry to create [standards] as appropriate. They have given the industry what they need to move this discussion to closure (law). They have requirements and need to be assured of a functional identifier—but the nature, structure and operations of the entity identifier is the task of the financial industry.

What is the regulators' role in the entity identification debate?

There is a regulatory requirement for an entity identifier for derivatives transparency. The Office of Financial Research (OFR) has issued a policy statement indicating that if a functional entity identifier is created, they will mandate it for all reporting to OFR.

The SEC/CFTC has just released a draft rule for swaps reporting. It also includes a requirement for an entity identifier (both the OFR and the SEC/CFTC are co-ordinating activities). US regulators want a global entity identifier.

The goal of global adoption is a core requirement. Treasury is reaching out to their regulatory brethren to ensure co-ordination and the cross-border discussion is underway. We have been part of those international discussions as well and will continue to do everything in our power to ensure co-ordination. I don't think this will create much pushback.

What do you see being the options?

At the moment, there are two ISO options on the table for the entity identification—extended BIC, and a new standard built off of the IGI.

Why is entity identification an important agenda item for the EDM Council right now?

This is now an activity that has a regulatory deadline. The industry has the opportunity to implement the entity identifier correctly and with active engagement from all relevant stakeholders. I have every confidence we will respond correctly and have so promised the regulators. Now is the time to stand and deliver.

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