



# Inside Reference Data

July 2015

[waterstechnology.com/ird](http://waterstechnology.com/ird)

## Regulation & Standards

Special Report



Sponsored by



# Global Data. Swiss Quality.

Since 1930.

SIX Financial Information has prospered and innovated for more than 85 years by delivering the wealth and asset management industry with the highest-quality data and services. Our financial ecosystem is comprised of 16 million instruments from over 1500 worldwide sources, supplying financial decision makers with unmatched access to reference data, market data, corporate actions, regulatory data, and value-added services.

Elevate your client satisfaction with us.  
[www.six-financial-information.com](http://www.six-financial-information.com)



Financial Information

Unlocking the potential.

## Editor's Letter



# Being prepared

In this special report, we hear from regulatory compliance data managers, specialists and experts about the next set of regulatory changes taking effect over the next two years and beyond, describing the parameters of necessary compliance efforts and better defining the roles of identifier and know-your-customer (KYC) guidelines.

Northern Trust's Robert Angel says in the Roundtable that the industry is asking what are the benefits of delegating the reporting required under Europe's Markets in Financial Instruments Regulation (Mifir). Market participants are typically waiting for more detailed provisions before starting compliance work—and Mifir's live date is not until early 2017, he notes.

SIX Financial Information's Jacob Gertel points to the imminent start of reporting under the US Foreign Account Tax Compliance Act (Fatca) for countries that are members of certain intergovernmental agreements, and the need to adhere to the Common Reporting Standard established for tax transparency. Regulation, generally, will require tactical fixes to give way to strategic process changes, says Marion Leslie of Thomson Reuters.

Perhaps the industry needs to emulate the utility models conceived for KYC data, as Celent's Arin Ray describes. Identifiers may need more work, as ANZ Bank's Mark Bands says in our Q&A (page 22), but are providing a data "genome" useful for mapping and aggregation.

These professionals have identified numerous regulatory and standards areas where preparedness is not where it needs to be, at the same time pointing to possible solutions that are out there, but require more action.

Yours sincerely,

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

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

# Inside Reference Data

## The new bumper issue

Inside Reference Data app now available – FREE for all *Inside Reference Data*, *WatersTechnology Data* and *Premium Package* subscribers.

Download all the content from the latest monthly print issue, build your archive of issues and view them offline.

To download and find out more visit [waterstechnology.com/static/ird-app](http://waterstechnology.com/static/ird-app)



## FEATURES

### 8 Virtual Roundtable

*Inside Reference Data* gathers together leading data management professionals to discuss the effect of new rules on data operations and management, as well the industry's response to challenges that have emerged from the second year of annual stress testing and the impact of identifier and know-your-customer standards

### 22 Q&A

ANZ Institutional Bank's Mark Bands explains why regulatory compliance should begin with raising data quality



© 2015 Incisive Risk Information (IP) Ltd. Unauthorized photocopying or facsimile distribution of this copyrighted newsletter is prohibited. All rights reserved. ISSN: 1750-8517

## NEWS

6 ESMA To Centralize Reference Data, Trade Repositories

6 Fenergo Enhances Regulatory Compliance Engine

7 ANNA Enhances ISIN Records, Ties To Other Standards

7 News Download



Incisive Media  
28–29 Haymarket,  
London SW1Y 4RX

### ESMA To Centralize Reference Data, Trade Repositories

The European Securities and Markets Authority (ESMA) has launched two projects to centralize trade reporting under the Markets in Financial Instruments Directive/Regulation (MiFID/R) and the European Market Infrastructure Regulation (EMIR).

The projects were delegated to ESMA by National Competent Authorities (NCAs). The first—the Instrument Reference Data Project—is to provide a central facility for instrument and trading data and the calculation of the MiFIR transparency and liquidity thresholds. The second—the Trade Repositories Project—is intended to

provide a single access point to trade repositories data under EMIR.

In agreeing that ESMA will develop these centralized solutions, NCAs have delegated some tasks related to data collection requirements under MiFID/R and the Market Abuse Directive (MAR) to ESMA, as well as the creation of a central access point for regulators to data of the EU's six trade repositories.

The Instrument Reference Data Project is expected to go live in early 2017, and the Trade Repositories Project will go live in 2016.

*Joanna Wright*

### Fenergo Enhances Regulatory Compliance Engine

Dublin-based Fenergo, which offers solutions aimed at helping financial institutions with the end-to-end onboarding process, has released enhancements to its rules engine for regulatory requirements.

The product is available bolted on to Fenergo's client lifecycle management and regulatory onboarding solution, or as a standalone that clients can integrate with existing in-house or third party onboarding, business process management (BPM) and know-your-customer (KYC) solutions.

The enhancements to the engine allow clients to interface with enterprise edition application servers, such as Apache Tomcat, IBM WebSphere and Oracle Weblogic.

The engine enables financial institutions to comply with a wide range of existing and evolving regulatory frameworks, including anti-money laundering and KYC regulations, and a growing number of newer ones, such as the US Foreign Account Tax Compliance Act (Fatca).

*Joanna Wright*

## ANNA Enhances ISIN Records, Ties To Other Standards

The Association of National Numbering Agencies (ANNA), through its ANNA Service Bureau (ASB), is to begin providing enriched International Securities Instrument Numbers (ISIN) records to ASB users. The records will tie several other identifiers together with ISINs, according to officials.



Dan Kuhnel, ANNA

Along with the instrument information represented by ISINs, data on the type of instrument, issuer, issuer's country code, denominated currency, initial trading locations, lead manager, fund manager and central securities depository will all now be included in ASB's financial instrument files.

The legal entity identifier will supply information on the instrument issuer, manager and depository, as part of the new files.

"The technical collaboration of the ASB partners has created an unprecedented financial data resource that we believe will remove obstacles to straight-through processing and ease regulatory compliance tasks around the world," says Dan Kuhnel, chairman of ANNA.

Michael Shashoua

## Fatca GIIN Numbers Experiencing Turnover

Fatca compliance may be even more complicated than first imagined as a result of churn in the database of GIINs (Global Intermediary Identification Numbers), according to a product strategist at a tax information reporting provider.

The US Internal Revenue Service has seen a 340 percent increase in GIINs being invalidated over the past five months, says Jeffrey Cronin, vice president of product strategy at Convey, a Minnetonka, Minnesota-based company.

## French Reinsurer Picks Societe Generale for Solvency II Work

Caisse Centrale de Reassurance (CCR), the French state-owned reinsurance company, has chosen Societe Generale Securities Services (SGSS) for services needed to meet its Solvency II requirements. SGSS will provide CCR with look-through reporting, data enrichment, market risk and solvency capital requirement (SCR) calculations.

SGSS says it is in the process of onboarding CCR and will go live with a solution in two months.

# Regulation and Standards

*Inside Reference Data* gathers together leading data management professionals to discuss the effect of new rules on data operations and management, as well the industry's response to challenges that have emerged from the second year of annual stress testing and the impact of identifier and know-your-customer standards

**Overall, what does the regulatory compliance landscape look like at this point in time, with the variety of new regulations that have taken effect recently?**

Robert Angel, head of regulatory services for EMEA, Northern Trust: Since the financial crisis, the regulatory landscape has continued to hit the financial industry in hard and fast waves. Regulatory compliance is expensive; data management must continually evolve to meet ever-changing requirements, which place cumulative pressure on data tracking, gathering, and reporting systems.

Mifir [Markets in Financial Instruments Regulation] transaction reporting requirements will be a significant challenge and require substantial analysis in order to successfully implement. With the go live date set at the beginning of 2017, questions remain within the industry as to the benefits of delegating Mifir reporting. As with most regulatory initiatives, market participants usually choose to await the detailed provisions set out within the Level 2 text before undertaking much of the build work required to meet compliance. Although the benefit of this approach is certainty that the



route taken will result in compliance with the corresponding regulatory requirements, it exacerbates the challenges faced by the market; placing strain on systems, technology, and staffing to meet tight implementation deadlines. The Level 2 text for Mifir is now expected to become available this September, leaving little over a year for effective implementation.

Many regulations have a domino effect on data management within the industry, with Solvency II, for example, not only impacting insurance firms through a comprehensive program of regulatory requirements, but implicating those asset managers with insurance firms as investors. While insurance firms must comply with the regulation, they are likely to expect their asset managers to provide them with additional information regarding the assets they invest in for their Pillar 1 capital calculation, as well as their Pillar 3 reporting requirements.

Of continuing significance is the sheer volume of regulation faced by market participants, some of which is interrelated, some distinct, and some contradictory. The result is the need to adapt approaches to minimize the burden and take advantage of any opportunity arising from regulatory change. Instead of looking at each regulation in isolation, the current landscape


**Jacob Gertel,**  
Senior Project  
Manager, Legal and  
Compliance Data,  
SIX Financial Information  
[six-financial-information.com](http://six-financial-information.com)

demands a broader view; to identify synergies and create holistic solutions, regulation must be regarded as a portfolio. For example, the overlap between the European Market Infrastructure Regulation (Emir), Mifir and the Securities Financing Transactions regulation currently being discussed, means data arrangements must be suitable for all three frameworks.

**Jacob Gertel, senior project manager, legal and compliance data, SIX Financial Information:** Currently, the financial industry worldwide faces many regulatory challenges from various areas: “too-big-to-fail”; tax transparency; infrastructure stability; and investor protection. Regulations that have gained importance recently are The Foreign Account Tax Compliance Act (Fatca), Solvency II, Common

## Virtual Roundtable

Reporting Standard, Basel III, the Alternative Investment Fund Managers Directive (AIFMD) and Emir. Although Fatca has been in effect since last year, the first reporting starts this year for countries from IGA models 1 and 2. CRS is an important Organization for Economic Co-operation and Development (OECD) standard in the area of tax transparency, which will not take effect this year but the industry needs to be ready for it.

The “too-big-to-fail” directives, such as Basel III, are gaining importance towards a global implementation. The local regulators are asking the financial institutions to adhere to the directives issued by them. AIFMD is another important European Union directive which requires hedge and private equities fund managers and their funds to be transparent in their activities for the registration with the member state regulator and later getting the so called “EU Passport.”

With the constantly increasing regu-

latory requirements, the firms that have been working early on fostering a culture of compliance are starting to bear fruits by having smoother regulatory implementation.

**Marion Leslie, managing director of pricing and reference services, Thomson Reuters:** It depends on who you are, where you are, what you do, and the related sectors, geographies or asset classes. That said, everyone is impacted in some way. Everyone is talking about it, not everyone is entirely sure what it means, and it will be some time until the consequences are fully understood. Particularly the unintended ones. Inter-jurisdictional impacts get ever more complicated, and the war for talent in risk and compliance gains intensity.

If you are deemed systemically important, you have a lot to do. If you are a large asset manager, you are likely concerned about a regulatory shift in focus to the buy side. If you are an insurance company, or an organization serving an insurance company, you will be thinking about Solvency II. Mifid clearly impacts large parts of the financial sector and heralds some industry-transforming implications—some are more aware of these implications than others.

Some organizations are changing their structure entirely, for example,

**“Firms that have been working early on fostering a culture of compliance are starting to bear fruits by having smoother regulatory implementation”**

*Jacob Gertel, SIX Financial Information*

separating their retail operations from the rest of their business, while others are conducting deep organizational culture analysis, engaging in values reviews, and grappling with conduct risk. Some are pressing ahead with their interpretations of the rules, others are hanging back, waiting to see if the dates move or the requirements change again, doubtless risking a last-minute push for compliance.

Fundamentally, however, these regulations have one common requirement: the need to source and manage trusted and relevant content to meet the regulatory reporting and compliance requirements, whether it is independent valuations with full transparency, or high-quality reference data with lineage.

**The derivatives space is seeing a lot of new rules, both out of AIFMD in Europe and the Commodity Futures Trading Commission (CFTC)'s guidelines in the US. What is the impact of these regulations on data operations and management?**

**Angel:** The new data rules in place to support the raft of regulations in the derivatives market are not simply due to the CFTC, but also Emir and equivalent rules across the globe in jurisdictions such as Singapore, Australia, Japan and Hong Kong.

Legal entity identifiers (LEIs) are now required to properly classify and



THOMSON REUTERS



**Marion Leslie,**  
Managing Director of  
Pricing and Reference  
Services, Thomson Reuters  
thomsonreuters.com  
marion.leslie@  
thomsonreuters.com  
+44 207 542 8753

distinguish each legal entity and must be provided on all trades, positions and postings. Unique Product Identifiers must also be used to describe the instrument traded and Unique Trade Identifiers ensure that each swap (over-the-counter or cleared) has a trade ID that is universally recognized and can be distinguished from other trades. The key challenge here relates to the creation and sharing of this data element; dealers have to create or defer to a middleware firm to create these and the buy-side firm consumes.

Firms must not only create a home for these data points, but start using and sharing these on all correspondence. The corresponding impact is wide with many functions affected. Furthermore, there is a dependency on these data points for requirements such as regulatory trade

## Virtual Roundtable



*Robert Angel,  
Northern Trust*

reporting, compression, and other critical or mandatory actions.

**Gertel:** The big number of regulatory requirements forces the industry to work and operate in a very efficient way, ensuring the compliance requirements are met. To achieve compliance with the regulations and directives, the firms are required to ensure the regulatory team will start monitoring the requirements and, together with the management, will put in place the adequate resources.

The ongoing regulatory changes are very challenging for the IT departments, which have to ensure their systems are able to deal with the data. This could be customer, market and reference data, and in many cases from different systems and vendors, which makes the whole implementation very complex. In many firms, the challenge is to ensure harmonization between many different systems in the areas of data gathering, reporting, and monitoring, which is critical for the compliance process.

A very important part for being compliant is to ensure the appropriate policies and procedures are in place—together with adequate training

programs for the involved departments within the organization.

**Leslie:** The impact from a data management perspective is really driven by the need for independent pricing with greater transparency into the inputs and derivation of that pricing, plus a greater focus on the reference data required to accurately identify the securities for reporting. Organizations—in the main—have access to large parts of the data they need somewhere in the firm, so the challenge is ensuring the information reported is entirely consistent with their business activities across the firm and that the content is reliable and auditable. The importance of timely, accurate and transparent pricing and reference data has inevitably increased. Market practitioners need to source, manage, store and be confident as well as transparent with their data management practices. Tactical fixes to meet deadlines will need to give way to strategic process changes to enable current (and future) regulations to be met sustainably, efficiently and effectively.

**What challenges have emerged now the industry is in its second year of annual stress testing? How are data operations responding to these issues?**

**Angel:** Firms are now expected to understand their own data lineage and definitions in ways that were previously uncommon. Harmonization is required as everything becomes significantly more connected; data often existed at an application or business unit level, but now must be integrated across units and even across firms. Gaps in coverage and quality have been exposed as a result, with market participants now struggling to cover these.

Another significant challenge is that entity data is not sufficiently standardized; significant integration tasks are required to meet compliance with differing regulatory regimes. Previously, security level data was the key driver, but this has changed and is now increasingly entity-driven. It is no longer sufficient to know the risk characteristics of the asset, the wider risks of the entity who issued the asset must also be uncovered. Vendor data offerings have not yet kept up with the new details the regulators expect to be provided. This has led to significant rework and a lack of consistency.

**Leslie:** Stress testing creates a strain through the sheer capacity required to generate the tests and reports. This challenge is compounded by the fact that the data needed to perform stress tests is often managed separately

across various units within a firm. To address this, firms need to shift away from siloed data management (which often results in a cumbersome process involving manual elements of data collection and aggregation) to a more holistic, enterprise approach. This creates opportunities to automate, and firms then need to ensure their efforts in the longer term go not into the production of stress tests, but into the analysis of their output.

Firms must keep a close focus on infrastructure, governance and other related processes that facilitate best practice. To achieve this, banks must invest in holistic data architecture and continue with building enterprise data management practices and capabilities.

Some firms are considering the bar set by the regulations to be the minimum level of achievement, rather than the end game. Recognizing the business value of truly understanding risk, these firms see the required investment in data and data infrastructure to be key

**“It is no longer sufficient to know the risk characteristics of the asset, the wider risks of the entity who issued the asset must also be uncovered”**

*Robert Angel, Northern Trust*

## Virtual Roundtable



Arin Ray, Celent

to their future growth and success.

### **How have identifier and KYC standards, promoted by the US at first, affected data management worldwide?**

**Arin Ray, analyst, Celent:** The know-your-customer (KYC) space has witnessed new and innovative data management solutions being developed in recent months. Some of the leading banks and service providers in the industry have come together to alleviate some of the operational challenges in KYC through the conception of ‘utility model.’

A KYC utility intends to gather all customer information in a single place so it can, in turn, be shared with financial institutions. Bank customers can provide all required documents to a single utility provider; similarly financial institutions can access all the necessary information from this utility. Providers of information—investment managers, hedge funds, corporates—are typically not charged by the utility.

On the other hand, financial institutions—banks, broker-dealers, etc.—access this information by paying a price to the utility provider. The

provision of this service is typically made through a web portal, requiring minimal effort from users in terms of technology and systems. They can upload and download the documents, and allow for viewing permission easily through the online portal.

**Angel:** The long established KYC standards have been overtaken by global initiatives requiring the disclosure of investor information on a continual basis.

Fatca, which became US law in 2010, imposes significant penalties on foreign financial institutions (FFIs) that fail to conduct due diligence on all investors, report on and withhold payments to non-compliant investors.

Following on from Fatca, the UK government signed reciprocal agreements with its crown dependencies—Jersey, Guernsey and the Isle of Man—as well as Gibraltar, and non-reciprocal agreements with a number of its overseas territories. Each of these agreements imposes obligations on the financial institutions of the jurisdictions signed up, with the reciprocal agreements additionally requiring UK financial institutions to identify and report account holders that are residents of the crown dependencies. These bilateral agreements are collectively referred to as CDOT.

Fatca and CDOT paved the way for

the global expansion of intergovernmental reporting; in February 2014, the OECD released the Common Standard for Reporting and Due Diligence for Financial Account Information (CRS). The CRS seeks to establish the automatic exchange of certain specified account information to the home country's tax administration. The number of jurisdictions committed to implement the CRS continues to grow.

All of these regulatory initiatives impact the KYC standards, meaning firms need to follow a detailed review of the procedures in light of the above mentioned reporting obligations.

**Gertel:** The KYC standards are very high, not only in the US, but worldwide. Compared to previous standards, today's KYC standards go beyond the anti-money-laundering requirements—inclusive sanctions monitoring—to include data required under the 'investor protection' guidelines. Firms have to ensure their systems are able to capture the data required for the account holders and the financial products and instruments.

For example, having systems in place where the customer 'risk appetite' could be matched with the financial instruments offered—in order to comply with the 'investor protection' requirements. The identifiers, such as the LEI or the

**"Firms must keep a close focus on infrastructure, governance and other related processes that facilitate best practice"**

*Marion Leslie, Thomson Reuters*

Fatca Global Intermediary Identification Number, have to be captured on the systems and allocated to the customers' data. The LEI is an important identifier that will help firms to identify companies with a unique key—such identifiers will be required later for other regulatory reporting.

**Leslie:** When you consider all the reforms targeting regulatory reporting and risk management globally, there is a recurring emphasis on a firm's ability to manage exposure to legal entities and market counterparties. This has impacted data management worldwide. We see an acceleration of activity here—sourcing the best content, investing in technology, focusing on tools and processes to capture and manage this data across the firm. Whether it is KYC compliance or aggregation of an investment portfolio to measure the exposure to a particular geography or entity, one thing is evident—issuer data, counterparty data, linking securities to entities as well as understanding hierarchies have

## Virtual Roundtable

become critical to the capture and aggregation of transaction and position data across an enterprise. The emerging data standard, LEI, will help aggregate exposure to an entity, and many regulations—and consequently data management processes—depend on its successful evolution.

### **Are new data operations efforts begun for any of these regulatory and standards requirements generating unexpected value for the industry?**

**Ray:** The current practices in KYC are complex and redundant, requiring every customer to exchange information with every financial institution they deal with. Documentation, verification can take weeks, and on-going updates are required on a periodic and event-driven basis. Furthermore, multiple exchanges of documents result in duplication of efforts and higher costs.

The utilities, once fully operational, has the potential to revolutionize the way the KYC process is carried out in the industry. These should make life easier for both buy- and sell-side firms easier as they will have to deal with a maximum of two or three utilities, rather than every institution they deal with. By establishing a common standard and format, the utilities should minimize the need for operational

changes for document provision and collection efforts over time.

Online portals would make the transmission and communication much simpler, especially compared to manual and paper based practices followed at many institutions at present. These in turn should free up time and resources of the utility users allowing them to focus on their core business activities.

**Angel:** Regulatory reporting is an opportunity to generate value for many within the industry, with many provisions presenting opportunities to develop products to meet clients' data needs. AIFMD and Solvency II are clear examples of this, alongside the trend towards the disclosure of information in standardized documents, such as Key Investor Information Documents (KIIDs) required for UCITS V and Key Information Documents (KIDs) required for Packaged Retail and Insurance-based Investment Products.

For Northern Trust, the possibility of generating value from regulatory standards and requirements remains a key focus. We have established a dedicated regulatory services team within our product development department that is focused on developing new capabilities for clients to meet and take advantage of



# waterstechnology

## All the financial market technology intelligence you need – anytime, anywhere

*WatersTechnology* provides all the  
financial market technology news  
and analysis you need in one place.

Don't forget you can access this  
invaluable content no matter where  
you are, as the site is fully compatible  
with all mobile devices.



**waterstechnology.com**  
+44 (0) 20 7316 9763  
corpsubs@waterstechnology.com

## Virtual Roundtable

regulatory change. This group not only includes experts focused on individual regulations but also solutions experts who look at the regulations holistically and how they interrelate.

Through our increased focus, we are also engaging more closely with our clients regarding current and upcoming regulation to help shape our thinking and ensure they keep up-to-date with the most relevant regulations impacting them, our developments to support them, what the market is saying, and what their peers are doing.

**Gertel:** By looking into the regulatory requirements it is difficult to say that they bring, in the short-term, any value to the industry but I believe, in the long-term, they will bring more value to the industry in financial stability, investor protection, and valuable tax-related data for investors. One has to remember the regulatory requirements are politically driven—after the financial crisis of 2008, as well as part of anti-terror laws and regulations issued mainly after 2001.

**Leslie:** It is clear that regulation is mandating changes in the way firms are managing their data. Beyond this, however, sits the prospect of untapped value for the industry. Although focus and investment in data operations and infrastructure can help reduce

cost and duplication, whilst increasing automation and quality of regulatory reporting, stress testing and risk management, ultimately, having better information is truly essential to better trading and investment decisions.

The agility demanded for risk reporting by BCBS 239, for example—whilst in the first instance undoubtedly painful to create—ultimately leads to being able to slice and dice your data easily across the enterprise, by business line, entity, geography, sector, portfolio, etc. This will enable firms to have the power of their own information at their fingertips, allowing them to run their businesses more effectively.

However, we are still at the point where more time is invested in creating a risk report than in analyzing and deriving insight from it. This will need to change if firms are to reap full returns on their investments beyond compliance.

### **What will the continued impact of these regulations be for the industry?**

**Angel:** The shift towards managed data utilities for asset data is likely to result in lower costs of operations within the industry in the long run. Banks are realizing that some of the data work they are required to undertake is truly commoditized and can be performed more cost efficiently as a consortium,

rather than each group paying vendors separately to perform isolated chunks of work.

The regulatory standards are also putting pressure on vendors to enhance their offerings and/or lower their costs. The recent release of the FIGI (Bloomberg Global Identifier) into the public domain goes some way to evidencing this.

**Gertel:** The regulatory requirements use up a lot of staff and IT resources together with significant changes to business strategies—mainly in the area of cross-border activities. Institutions will have to re-shape their business models by outsourcing their activities for data and even operations otherwise. Small institutions will have difficulties to be compliant, leading to mergers and acquisitions in the financial industry.

**Leslie:** The humble data record will continue to gain importance. Once viewed as commoditized by some, reference data is now hyper-critical for certain reporting requirements. The data management professional's dream of an infrastructure and tools optimized for data management, data quality and operational efficiency will come closer to realization, as the consequences of incorrect data in regulatory filings become clearer.

Data management practices will

**“The current practices in KYC are complex and redundant, requiring every customer to exchange information with every financial institution they deal with”**

*Arin Ray, Celent*

continue to gain attention, whether in architecture, governance, ownership, quality practices, supplier management or process management. Firms will also need to break down those silos. Front office, for example, needs to be accountable for data quality for the middle and back offices to use it effectively. Relationships between business units and central functions need to evolve to facilitate better data management. Financial institutions will benefit from exposing the vast range of content they currently have squirreled away in siloed legacy databases—driving better, holistic decisions delivering them a 360 view of their customer, performance, risk and opportunities.

Without an agile, flexible and adaptable means of accessing and analyzing their own data reflecting their business activities and exposures, how will firms start to manage those unforeseen, and unintended, consequences?

## Sponsored Statement

# Follow the Entity Data Road to Legal Entity Information Wizardry

When you consider all of the new regulations our industry faces, a clearer picture of common requirements begins to emerge. Most reforms targeting risk management will place a premium on the ability to manage exposure to legal entities and market counterparties.

Whether it's managing client data to ensure anti-money laundering (AML) and know-your-customer (KYC) compliance obligations are met, the ability to aggregate an investment book or portfolio to calculate exposure to an issuer, or understanding the credit risk associated with over-the-counter market counterparties, the data needed to accurately define complex legal entities has become the primary focus.

The need for comprehensive entity data is hardly a new revelation, but we are seeing a noticeable acceleration of activity in terms of investment in the operational and technology infrastructure to capture and manage it. For 20 years, our industry has been centralizing the management and governance of instrument reference data through various enterprise data management (EDM) initiatives. Now we are talking about EDM 2.0 and it's legal entity's turn.

While the value of EDM is self-evident to most institutions, executing on the vision is never easy. As institutions seek the right operational model to manage the legal entity version of EDM, they are seeking ways to converge different types of entities into a common platform. This means combining the common data elements of the three primary types of entities that all firms need to deal with—clients, counterparties and issuers.

### Asset management example

A good example of this trend comes from the asset management sector, which is looking to converge issuer and counterparty data to support market and credit risk. When determining market exposure to its broker/dealers, it needs to consider not only its trading activity with them as a counterparty to OTC and delivery vs. payment (DvP) transactions, but also the equity and debt it holds from these same entities as issuers.

Having a common view of the hierarchy, country of risk and other core descriptive data on these entities will not only create more efficiency and scale in data operations, but also provide a much fuller picture on the totality of exposure



to large entities. Broker/dealers are also looking into scaling their entity data even further, considering the same entity may be a client, counterparty and issuer of securities they hold in their book.

### **BCBS 239 catalyst**

A set of data management principles under the auspices of BCBS 239 has certainly been a catalyst for the focus on legal entity content and will likewise place a premium on managing data across the different roles an entity can play.

Managing legal entity data across lines of business, asset classes and geographies will be a prerequisite to meeting the BCBS 239 data governance challenge. This includes not only unique identification and an accurate description of the entity and its corporate hierarchy, but all relevant information that can provide predictive insight into the risks of doing business with the entity, whether it is as a customer, counterparty or issuer.

Take inventory of the key regulations and you will see this theme repeat itself. Fatca requires banks to know the national origin of a client (are they a US person from a tax perspective?). Solvency II will require the ability to assign risk to securities held in a portfolio and aggregate exposure to issuers, industry sectors, asset classes and markets.

The Dodd-Frank Act and European Market Infrastructure Regulation require

accurate data on counterparties to ensure appropriate reporting and clearing of OTC swap trades. Recent executive orders such as sanctions from the Office of Foreign Assets Control and the EU against Russia for its involvement in the Ukraine are examples where financial institutions need to connect the complex hierarchical relationships of Russian companies to ensure no trading of sanctioned instruments occurs.

This trend will consolidate the acquisition and verification of basic information such as an entity's name, address, country of domicile/risk, cross-referencing of identifiers and industrial classifications. The legal entity identifier system will serve as a building block to support the evolution of risk management, but it will also provide a standardized mechanism to link value-added content, including securities issue data, full global hierarchies, country of risk, credit analytics, news, regulatory status, fundamental, and related financial data.

Entity data is the map that connects the total exposure of securities and holdings to issuers and the concentration of assets by industry sector or countries of risk. So, if you are searching for a common denominator in regulatory compliance, all roads lead to the legal entities with whom we service, invest and trade.

*Tim Lind, Head of Regulatory Data Solutions, Thomson Reuters*

# Compliance Through Quality

Mark Bands, data management stream lead in the OTC derivatives reform program at ANZ Institutional Bank in Melbourne, Australia, tells *Inside Reference Data* that regulatory compliance should begin with raising data quality



Mark Bands

## **What facet of data operations is most vulnerable to regulatory compliance issues?**

Data quality management. There is now an unprecedented need to collect, evaluate, categorize, compile and report information to regulators. The January 2014 report by the Senior Supervisors Group of the New York Federal Reserve Bank highlighted ongoing issues within banks related to the need for both timeliness and quality in the underlying reporting data. The nexus of data virtue and the need for speed remains the single-most at-risk aspect of data operations today.

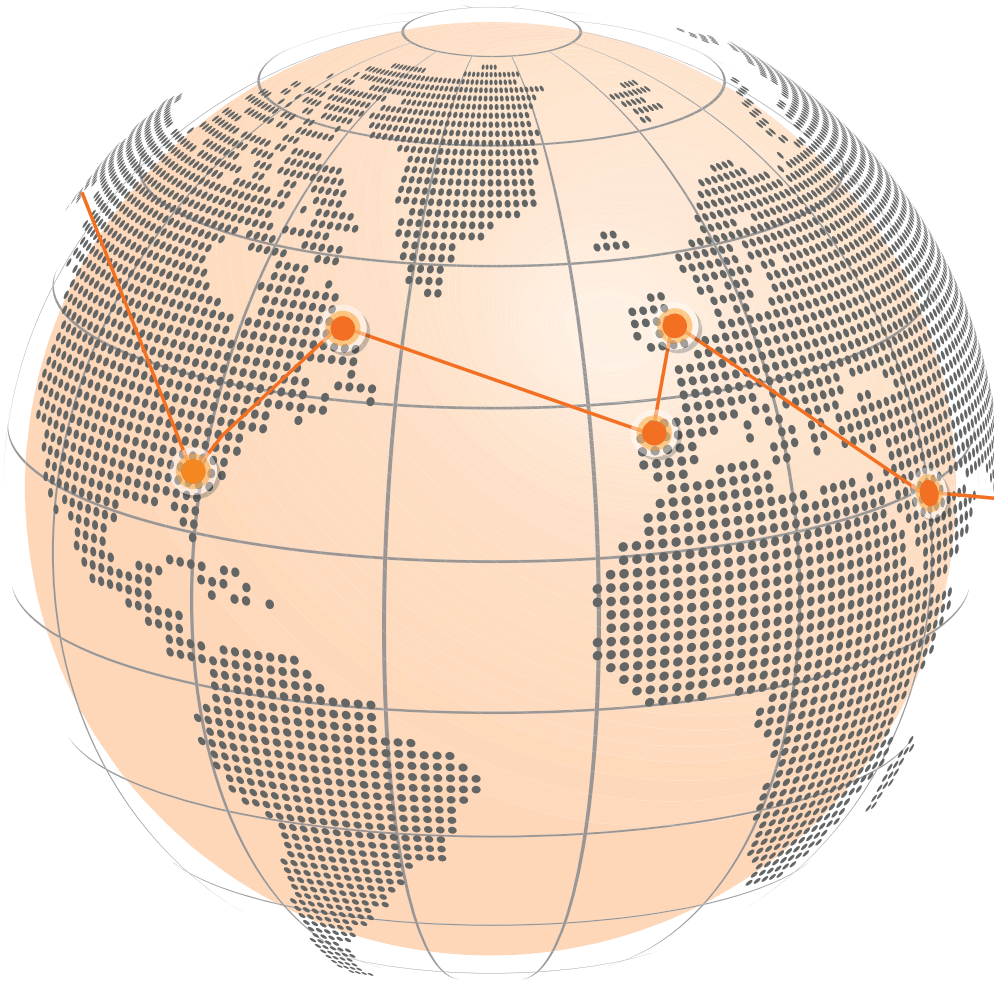
## **How prepared is the industry to comply with new regulations addressing derivatives data management issues, such as AIFMD and CFTC rules?**

Across the industry—hedge funds, investment banks, broker-dealers and exchanges—the level of preparedness with respect to data quality, operating

model development and technological capability remains misaligned. This is due to firms having started from dissimilar baselines. More practically, different firms have demonstrated divergent levels of organizational flexibility needed to meet the host of challenges presented by the ever-evolving regulatory context.

## **Has the proliferation of transaction and customer identifiers proved beneficial to data management?**

It has. The legal entity identifier, unique swap identifier, unique product identifier and unique trade identifier are all unique, unambiguous and universal codes for use in financial transactions. These are aimed at enabling data aggregation across different business units of multiple financial firms, globally. They have not yet provided the transparency panacea regulators hoped for, but data managers now have a data “genome” with which they have at least commenced trying to meet mapping and aggregation goals.



## A WORLD OF PRICING & REFERENCE DATA AT YOUR FINGERTIPS.

TRANSPARENT. INDEPENDENT. ACCURATE.

Thomson Reuters delivers award winning content to help customers with their Portfolio, Risk Mitigation and Regulatory needs. Our extensive offering of specialist data sets and comprehensive range of regulatory data services include:

- CDS
- CDO
- CLO
- ABS
- Fixed Income
- Equities
- Solvency II
- FATCA
- EMIR
- Dodd-Frank
- UCITS
- and more

Only Thomson Reuters has the depth and breadth of content, the global footprint, local knowledge and proven experience to deliver the exact data you need not to just comply – but to also thrive – anywhere you do business.

To find out more, simply email [prd.community@thomsonreuters.com](mailto:prd.community@thomsonreuters.com) or visit [prdcommunity.com](http://prdcommunity.com)





Incisive Media 28–29 Haymarket, London SW1Y 4RX