



Managing Client and Counterparty Data at a Tier One Investment Bank

By "The Voice of a Veteran"

Having worked within the brokerage community through its evolution to investment banking since the early 70s, it has always been clear to me that accurate, easily accessible data was the key to office efficiency. From address cards, rubber stamps and processing bureaus, through to the Big Bang, dematerialisation and the failures of industry-wide initiatives like Taurus and GSTPA, it was apparent that good data was the key to survival. How many times has data been changed to fix a broken process? As a good friend of mine said, "if the process is broken don't change the data, fix the process" and with good reason, but we never had the time or patience to do that. We carried on changing the data and what a mess we have ended up with.

As regulation became stricter and more demanding around the turn of the millennium, the ability to retain accurate client data became a necessity. Through N2 in the UK and then the introduction of the USPA in the US, the world was waking up to the reality of financial crime. That together with the growing volumes of global trading created a need to find effective ways to comply with regulation yet create an effective way to process the millions of trades now finding their way into the financial systems.

In 2007, the industry went through a real test with the requirements imposed by MiFID and the Third Money Laundering Directive. How easy was it to re-paper clients under the new

MiFID classification rules? How effective was transaction reporting without a major overhaul of the client static? How prepared were we for the requirements to regularly review client static? A lot of hands to the pump were required to address these and other arising issues.

Straight through processing is still the talk of the town, from the set up of a new client, legal documentation, credit, collateral management through to trading, allocations, confirmation, settlement, corporate actions and, most importantly, accurate balance sheet postings. There is little tolerance now within management for breaks and fails. Employing people to purely manage exception queues is a cost many firms are not now willing to bear. The data, and in this respect client reference data, is becoming recognised for what it is: the lifeblood of the city.

There is much debate today about the most effective way of managing client data. Ultimately, the model has to support the changing regulatory requirements, credit monitoring, all kinds of reporting, both internal and external, collateral management and settlement. If managed correctly, the data model can support sales and marketing from the same source.

In many companies there are multiple databases referring to the same data objects via different codes and with their own validation and formatting rules. Much of this is due to legacy system issues, as well as bespoke systems being introduced at various stages of processing. This does not make life easy and with the

growing requirements for metrics there is now a dilemma as to which is the best place to source the data.

There is without doubt a real need to consolidate client data into a core 'service' with its own governance. From there, base processing systems can collect data relevant to their process but not exclusive to it. This also simplifies the maintenance issue of only having to amend or enrich in one place.

A must within this service is to be able to recognise entities uniquely, whether they are acting as direct clients or as beneficial owners, when the direct client is an acting fund manager. The application of a unique reference for all entities is essential. Appropriate validation on creation should help prevent duplication. Problems can exist even then, for example, in non-English speaking jurisdictions, where many companies are recognised in the local language as well as the more globally recognised English translation. Even these problems are easily addressed simply by expanding the clients' profile to include all of the available attributes that create uniqueness and eliminate duplication. When considering legal entity names, for example, just by including the legal name in both the local and English language, together with any aliases or trading names that the company may go under, the chances of duplication are reduced.

With new client data processing there is a high amount of accountability placed on the relationship people (sales and trading) to know

their client. In most cases that means financial service companies have to create client profiles from information gathered by the sales people that has been gleaned from their client. This together with third party validation from recognised primary sources, such as registration agencies (for example, Companies House in the UK), regulators and listing agencies, generally meets the basic requirements. This 'primary' information is free in many cases but some sources require a subscription. In certain cases the companies' incorporation documents and financials will be collected to support the integrity of the profile.

These profiles are then generally enriched with industry references to support additional services: reporting requirements (external references, for example BIC or regulator issued codes), settlement (vendor codes to support SSI management), corporate credit (ratings from recognised vendors) and 'ticker codes' that are used when the company is listed on an exchange. This is not an extensive list but is indicative of the growing profile.

So, where can companies start to utilise external providers to gather this information? It would not be prudent for the initial profiling of clients to be done solely through any vendor solution, but they can be useful and cost effective in the validation stage of the creation process. Probably the greatest benefit of a vendor is in the process of the repetitive review of clients. This is now deemed a mandatory requirement, although the frequency of this differs from firm to firm. This is a significant piece of work that can require a considerable increase in staffing to handle the volumes of research. Working with a vendor to provide this information for you is now becoming a more attractive proposition.

Two years ago I undertook a project to look at what a vendor could offer to improve the research process, whilst

keeping the impact on headcount to a minimum. I identified three vendors who specialised in providing bespoke data sets. On interviewing, I established that one was at a very early stage of building a solution and was eliminated. This left two options, both had relatively mature products so a proof of value was set based on three key factors: global coverage, delivery times and, very importantly, cost. I also did a review of what the current coverage of my clients was with each vendor. One vendor came out top in all cases and was even willing to adapt its charging schedule to make the initial matching exercise manageable. The other was far more rigid in its approach.

I chose the vendor CounterpartyLink because of the reasons mentioned in the comparison above, along with the fact their data set matched our requirements best and they were willing to adapt to cover our extra demands. Their obvious expertise in this field and their willingness to work with me in creating a staged approach to implementing an automated solution was a big seller internally. Getting budget for vendors at the time involved a lot of justification and approval and for a fully automated solution, a significant amount of internal technology effort and cost.

The approach taken was to utilise the vendor's data in comparison to ours and initially investigate the differences and update accordingly. When a match was proved, an additional benefit was to be able to enrich our data with attributes that the vendor provided but had not been collected in our processes going back several years. As no review process had taken place to that point, there was also a great opportunity to purge defunct data from our data set because of evidence supplied by CounterpartyLink. This approach did require headcount to obtain the 'line in the sand' comparison for all our records but

far less than employing people to re-search each entity ourselves. Moreover, we had no additional subscriptions to make for data provided at a cost in the public domain – these were absorbed by the vendor.

The next phase was to build a utility between our own data repository and CounterpartyLink using our internal unique ID and their unique CPL code as a cross reference and having the ability to upload approved data received without any re-keying. A sound proposition and, no doubt, a success story for the future.

There is no question in my mind that the use of an external vendor to supply specialist information and services, and to higher levels of accuracy and auditability than currently done in-house, is the way forward. Use these firms to clean up and maintain the vast bulk of your low and medium risk data sets. Reorganise and refocus your highly paid and experienced analysts to specialise in keeping your higher risk or highly valued client and counterparty maintenance processes tightly covered in-house. The benefits of cost savings, fewer STP breaks and de-duplication of client and counterparty records are there for all to see. Entity data is becoming commoditised and, as such, there is little competitive advantage in keeping it in-house. Do nothing about it, however, and you are running the risk of severe reputational damage.

The author of this article has been in the reference data industry for over 25 years, the vast majority of which was spent with a tier one US investment bank where he managed global client on-boarding and entity reference data processes.

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