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An industry white paper prepared by A-Team Group for
CounterpartyLink and **GoldenSource**

Counterparty Data Emerges as a Business Asset to Fuel Growth

The approach to managing counterparty data has, over the past year, evolved from working to understand complex ownership structures and exposure to each counterparty, to turning that valuable information into business intelligence, used to fuel growth.

With this advancement come data management, infrastructure and governance practices that should be tailored to each firm's business management style. There are a few more pieces of the puzzle to be resolved, and industry leaders are now focusing their attention on them.

The long-term benefit is a scalable solution that can turn tactical challenges into strategic direction.

Commissioned by:



July 2008

Counterparty Data Continues On the Move

Counterparty data management is receiving a lot of management attention in the current volatile and dynamic climate. Across the industry, proactive senior managers are moving onto strategies that balance growth against risk, as changes to accommodate Basel II MiFID, and Sarbanes-Oxley are completed.

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commissioned by Enterprise Data Management specialist, GoldenSource, and the Global Legal Entity Data Source, CounterpartyLink, to provide a perspective on the current industry approach to managing counterparty data. A-Team set out to compare industry progress since its in-depth report one year ago entitled *New Wave for Counterparty and Client Data: Traditional Methods Make Way for Proactive Risk Management & Compliance*, sponsored by GoldenSource.

As with the 2007 research, this whitepaper includes industry insight into the current state of counterparty data management, its progress, and challenges, and ties counterparty data to trends and conclusions from previous work.

Leveraging Counterparty Data Is Now the Bottom Line

Real advances in counterparty data management have been made over the past year as financial

“Once firms understand risk and can identify exposure to entities, counterparty information becomes a business enabler into a valuable business asset.

As one senior business area manager at a US investment bank put it, “It's now about how we leverage counterparty information into making or saving money. As you show business intelligence, more managers get on board, and you can use it [counterparty data] in profitability analytics.”

A-Team Group, a publishing, research, and consulting company specializing in financial information technology, was

A-Team found, through our series of discussions with industry leaders on counterparty and client data practices, that this advanced thinking is evident in various forms at investment banks, asset managers and global banks. Where possible, firms have moved on to leveraging counterparty data. “Once firms understand risk and can identify exposure to entities, counterparty information becomes a business enabler,” emphasized a UK Data Manager at a leading bank.

This conclusion indicates progress being made in the industry since A-Team's September 2007 study, where we found that “management appears to be focused on depth of understanding – i.e., who are the real counterparties – and validating assumptions on exposure to counterparties because of complex ownership issues.”

Counterparty Data at the Center

“There's an ongoing industry rationalization of where counterparty data should be held,” says a senior manager responsible for client data at a European bank. “A consolidation of global systems is underway. The future could hold central database links to transactions systems off the back of counterparty solutions.”

Firms are beginning to understand the connection between central data management strategies and counterparty data management in a way that empowers their business. As such, counterparty data has found its place in central data repositories. As a senior manager at a European bank explained, “We need to have at least the basic and common counterparty data held in a central repository so a firm can aggregate exposure.” And other added, “True exposure only can come from a central source.” A data quality manager at a UK bank pointed out, “Data problems are failures in business process. So, data has to be right in the central hub [as a check].”

In A-Team's 2007 report, industry findings were already suggesting progress on this front: “Parallel to acceptance of external data management solutions, third-party sources for counterparty data are beginning to resemble the more established ‘product reference data market.’”

The quandary has been to what extent counterparty data should be pulled into a central data repository, as opposed to remaining as standalone data collections and databases. Depending on the firm's established practices, there are various definitions of how to manage counterparty data centrally. In

the past, some firms have chosen stand-alone databases and in some cases, maintained them through legacy systems; others have managed this data manually or through Excel. Today, as central database management solutions become reality, how can or should counterparty data management relate to central data projects – many of which have the flexibility and backing of a third-party data management solution?

“ True exposure only can come from a central source

increase data consistency across functions, have reopened the question of counterparty data management processes in the scope of enterprise data management. In 2008, the movement appears to be toward centrally holding and governing common data, such as identifiers, legal entity name, address, Tax-ID, etc., needed to aggregate and monitor firm-wide exposure.

But more specialised and specific counterparty data present different challenges. Even after data management re-evaluations, it appears firms have decided that counterparty data directly related to business areas and asset classes, like settlement instructions, is best maintained by the business units with expertise in these items. In this data management environment, downstream businesses maintain and enrich specific counterparty information in “sub master files”, usually including standing settlement instructions. So governance between

the central data department and the downstream businesses becomes an issue, particularly as structures, entities, and ownership change.

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“Counterparty data is business-centric – that means central data management and business units work together to get it right,” said a senior manager at a US investment bank, expressing the sentiment implied by his peers.

Once again, decisions on how to leverage the balance between firm-wide risk and exposure and ensuring the business have what they need appears

to have been encouraged by initiatives to re-evaluate management of areas like standing settlement instruction databases. This finding surfaced in A-Team’s 2007 report, where 63% of those interviewed said they were planning to implement a new process for maintaining their standing settlement instruction data.

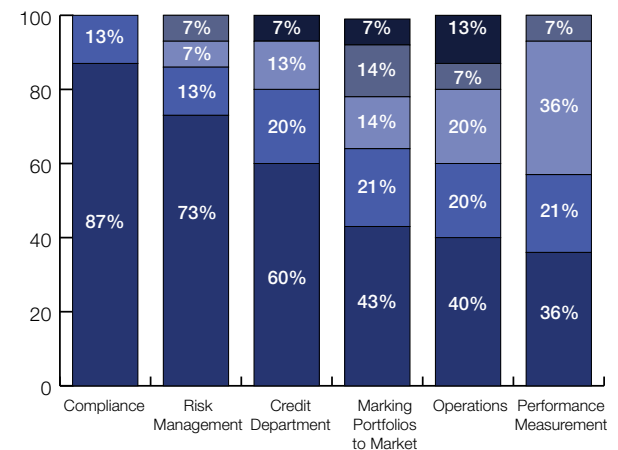
What's Driving the Attention – Then and Now

As noted, the underlying drivers for re-evaluations and improvements in counterparty data management remain facilitating risk management and firm-wide exposure determination and complying with increased regulation. Solutions in these areas in particular have progressed from the early-stage design described in A-Team’s 2007 findings.

Today, industry managers are telling us that they can start turning attention to a more “mission-critical” nature of counterparty data management. “Although risk management is the principal reason for improving counterparty data management, improving operations comes next followed by identifying to whom I should sell more,” says a savvy data manager at a UK bank. As such, counterparty data is becoming a more integral part of the firm’s business activities.

This represents progress from A-Team’s 2007 research into areas like operations and performance that were at rated as lower importance for aggregating counterparty data last year (see 2007 excerpt and Chart 1).

Functions where aggregating Customer Data is important 1 (most important) to 5 (least important)



1 2 3 4 5

Chart 1: 2007 A-Team Research – Functions for Aggregating Counterparty Data

“Gone are the days of taking relationships at surface level; the credit crunch has emphasized the necessity of full disclosure of details behind a counterparty and instrument.

It is well publicized that the industry has increased ‘tactical attention’ paid to client and counterparty data since regulations like KYC/AML.

Now management appears to be focused on depth of understanding – i.e., who are the real counterparties – and validating assumptions on

exposure to counterparties because of complex ownership issues. Achieving these management goals requires additional data, a shift towards centralized data management, and tools for analysis. Study findings revealed progress across these strategic categories, but change is still in an early phase.”

Having said that, risk management and compliance still come first. A manager of global operations highlighted, “Counterparty data is different for each business unit. Compliance can be a nightmare.” Specifically, A-Team sources noted how difficult it can be to comply with national requirements across geographic borders, as well as keeping up with the ongoing dynamics of the “credit risk watch.” The manager continues, “We need deeper requirements

than before in areas like collateral data and ratings – which adds complexity”. Another supported his sentiment saying, “Everyone has to have solved the

counterparty processing problem in one way or another, but it’s an ongoing effort to keep it up-to-date, not a one-shot deal.”

Which brings us to issuer-issue links – the long-term, evolving challenge spotlighted by the industry explosion in alternative investments. This important data area also reinforces the required relationship between counterparty data management and central reference data operations. As noted in 2007, 87% of the firms A-Team interviewed had already enabled links between issue to issue identifies and the instrument securities master:

“Of those firms that have issue-to-issuer links established, an encouraging 87% of respondents indicated that they have integrated these links into the securities master where they can be used for trading analysis and risk assessment. Linking securities to entities was ranked a top priority in the first of these three studies, instrument data, in particular with the growth and acceptance of risky OTC derivatives.”

Importance of Data Quality

To achieve desired quality and completeness, institutions rely on external data sources as well as internal data collection. A senior manager at a European bank said it well: “We use external sources to enrich and validate our internal counterparty data. External data helps resolve any data ‘tensions’ across business areas.” This practice was echoed by a data manager at a leading US bank, “Data quality for counterparties is our priority. We validate using multiple sources.”

Another example from a forward-thinking UK manager leverages the advantage of accurate counterparty data and enhanced credit-assessment practices into informed business decisions. As a result, the firm can reward attractive customers, “Credit risk is taking on a new definition and use – we need more depth of information. Once we have it, we can use it to price customer relationships accordingly.”

Enlightenment from adding counterparty data sources can entail extended data validation practices – not necessarily a bad addition if approached as part of putting a robust process in place. “The view can be different from source to source,” a data manager from a leading global bank reminded us. “You need a robust process and decision rules.” This manager stressed how complex assets now require additional sources and process re-evaluation.

Tale of the Business Entity Identifier

The importance of knowing the entity behind the counterparty is an essential part of any discussion on the topic of counterparty data management. . Several

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of our respondents suggested, “There’s a heightened awareness of business entity, for use at a firm-wide level.”

A-Team Group’s recent special report, *Entity Data Management, Know Who You’re Dealing With?*, June 2008, featuring in its *Reference Data Review* publication, paraphrased the issue well:

“Entity data management has historically been a rather overlooked area of the reference data landscape, but with the increased focus on managing risk, the industry is finally taking notice. It is now generally agreed to be critical to every financial institution; although the rewards for investment in entity data management appear to be rather small, the consequences for getting it wrong are severe. Settlement, legal, financial, regulatory

and reputational risks are all inherent in a failure to properly manage entity data... Financial institutions are continuing to invest in improving their entity data management and the

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vendors in this space have stepped up to the plate to provide more integrated services. Connectivity and integration have become important buzzwords for the entity data landscape. The space is not without its challenges, for example the lack of an industry standard business entity identifier, but it seems that evolution is well underway.”

Two of A-Team’s contacts reinforce this need and expand on the industry gap. The first, a business manager at North American investment bank, points out the “massive opportunity in establishing a business standard for entity identifiers,” while the other, a head of data quality at a global investment bank, said, added “Eventually, all have to use a standard entity identifier – the investment manager, the broker/dealer, and the custodian. Someone has to police it.”

The EDM Council added a strategic perspective in its April 2008 research findings on the subject of BEIs:

“Financial institutions that take a more strategic view of data management do recognize BEI as a foundational building block for all forms of business analysis, compliance requirements and industry-wide communication. The underlying message is that tactical solutions are unlikely to be sufficient to meet these obligations as the financial industry continues

to evolve.”

The Next Horizon

“In the future, institutions will need to be able to show all relationships with a company – no matter where the transaction,” a global business manager projected.

Getting ready for that state of counterparty awareness as well as “exploiting” improved counterparty data management for business growth is the emerging thread in A-Team’s 2008 update. Consistent messages from A-Team’s industry conversations left no question of the ability of counterparty data to fuel business growth and act as a business enabler. Those individuals whose solutions weren’t quite ready to contribute to business growth noted that once they were satisfied with the accuracy of counterparty exposure, leveraging the data firm-wide is the next step.

To sum up, the industry appears to be engaging at three levels to “use counterparty data as a business enabler”:

1. Implementing a data management solution that works for the firm to ensure compliance, risk management and consistent data practices between the central repository and downstream businesses.
2. Securing the data sources needed to cross-check internal information with external independent ones.
3. Exposing the hierarchies and true business entity.

Only after these steps have been thoroughly implemented can the firm enjoy the benefit of knowing exactly with whom it is doing business and begin to use counterparty data to empower business decisions and, ultimately, fuel growth.

““ With counterparty information, it’s about being proactive vs. reactive now. You have to take a top-down view – exploit it



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About GoldenSource

GoldenSource provides an integrated enterprise data management (EDM) platform for the securities and investment management industry. Our software and expertise help our customers benefit from better management, storage, and distribution of their data company-wide. A consolidated, centralized data foundation layer for securities and other products, clients, and counterparties combined with positions, balances, and transactions enables firms to show a real time aggregated view of risk and exposure. GoldenSource products are mature, proven solutions to support cost-effective growth strategies and stringent regulatory demands.

GoldenSource EDM supports all the critical business functions of a proven enterprise data management platform. This includes data acquisition, cleansing, normalization, validation, enrichment, and distribution. We deliver the unique ability to link product and entity information with real time transactions and positions. This granularity of information helps our clients to better manage exposures and liquidity, control risks, and maximize opportunities. Trading, risk management and compliance, settlement, portfolio accounting and other front, middle and back office functions all benefit from improved data management.

GoldenSource has its global headquarters in New York with EMEA headquarters in London and development offices in Linz, Austria and Mumbai, India.

Please visit us at www.thegoldensource.com and send general inquiries to info@thegoldensource.com

CounterpartyLink™

The Global Legal Entity Data Source

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About CounterpartyLink

CounterpartyLink, Ltd., an Investors Guaranty Global Alliance company, provides global legal entity data, collected and maintained with processes designed to be consistent with the stringent standards driven by today's risk management and regulatory compliance requirements for financial institutions.

Detailed information on legal entities, including corporations, governments and funds, containing amongst other things addresses, ownerships, listings and industry identifiers, is collected in data centres around the world, using only primary sources and registration documents. All data is supported by an audit trail back to original source documents.

CounterpartyLink employs rigorous, documented procedures to collect and verify all data, and updates the information for corporate actions and other events affecting the data on a daily basis. CounterpartyLink is headquartered in London with offices in New York.

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About A-Team

A-Team Group offers its clients deep expertise in business intelligence, market research, strategic consulting, and communications in the field of financial information and trading technology. With years of experience in analyzing the use of information technology in financial markets, and a sound understanding of how and why IT is used in finance, A-Team Group helps suppliers and users make informed decisions about products, strategies, and deployments. A-Team Group services clients with three levels of capabilities:

A-Team Consulting offers custom consulting services helping customers understand their markets, position their offerings, and get their message out to the right audience.

- A-Team Group has hands-on, in-depth domain experience and is experienced and skilled in research targeting the financial services industry
- A-Team Group is considered a widely respected and authoritative commentator on financial information technology services, including enterprise applications and their evolution within financial services.
- Consulting services include strategic marketing and planning, market research, marketing assistance, and events.

A-Team Research collects detailed data for proprietary or customized needs, performs business and technical analyses, and publishes reports and other products for targeted delivery, examples include:

- Buy-side Firms Take a Hard Look at Data Practices: Derivatives Push the Data Management Envelope!
- Are Contributed Bond Prices the Hidden Gem in Fixed Income?
- New Wave for Counterparty and Client Data: Traditional Methods Make Way for Proactive Compliance & Risk Management
- Connecting the Reference Data Dots: Managing Risk and Exposure through Linking Aggregated Position Data
- Static Instrument Data Becomes Dynamic – OTC Derivatives, Securities Linkages, Shake Up Instrument Data
- Buyer Persona - The Influence Behind Data – Management Decisions
- Fixed Income Pricing: Are Evaluations Gaining Value?
- Reference Data Now; Business Drivers and Approaches to Data Management
- Faster Than a Speeding Bullet... Low-Latency Architectures and Building Blocks for Tomorrow's Trading Applications

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