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Building A Sustainable Enterprise Data Management Strategy

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The logic and value of achieving control over enterprise data as a strategic and operational asset is now firmly established in the minds of most financial institutions. It began slowly with concerns over meeting the operational challenges of T+1, gained ground with the objectives of front-to-back operational efficiency, received a push with global concerns about credit and systemic risk, and now is being driven forward by the realities of a new business environment and a desire by firms to leverage their considerable data assets to support trading innovation and better serve clients.

Enterprise data management is now being viewed as equivalent to technology as part of a financial institution's core operational infrastructure. As such, the challenges have shifted from conceptual buy-in on the rationale of data management, to the more tactical objectives associated with the realities of EDM implementation and the difficulties in achieving balance among competing business priorities.

Some Definitions

The definition of the data types that are included in EDM is straightforward and includes all structured content that a financial institution needs to access in order to conduct business, meet reporting requirements, serve customers and manage risk. The real challenge is how it gets done, not what needs to occur. However, for the sake of simplicity and to offer a common framework for discussion, we offer the following:

- ***Enterprise data management:*** EDM is a concept. It refers to the ability of a financial institution to understand data dependencies throughout the transactions chain and precisely define, easily integrate, and efficiently retrieve data for both internal applications and external communications.

- ***Enterprise data types*** – Enterprise data is the fuel of financial operations because it is a component of most processes within financial. When referring to enterprise data, most financial institutions include the security/product master (consisting of identifiers, security types, instrument descriptors, fundamental data, descriptive data and prices); client/counterparty files (containing information about legal entities, account information, positions and transactions); standing data (such as SSIs, identification codes, calendar information, commission, fees and tax tables); and corporate actions (including symbol changes, classifications, conversions, dividends, capital changes, splits, interest payments, etc.). The core challenge is that financial institutions are modeling the data in different ways and using different words to describe their contents. Precision of terms, definitions and relationships forms the basis of data management strategy.

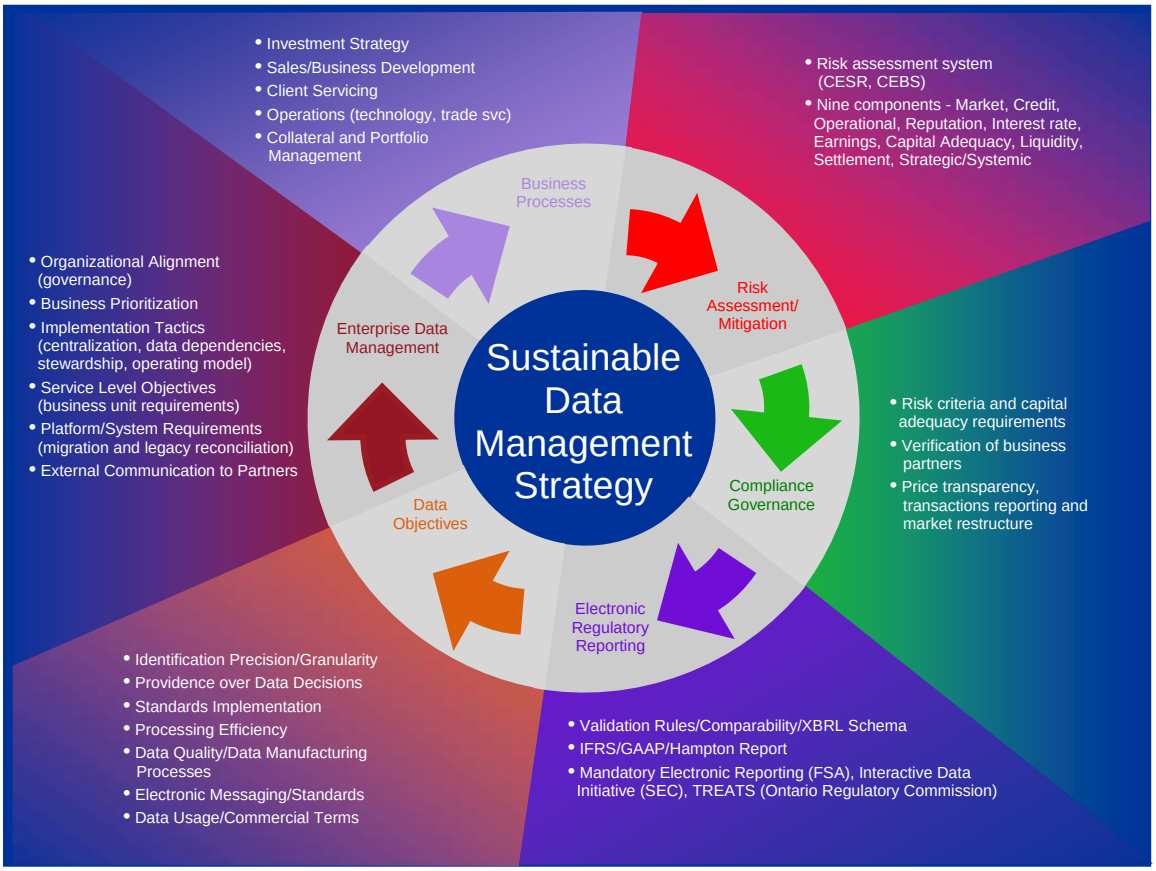
Business Drivers and Internal Challenges

We don't intend to belabor what everyone already understands – namely that the financial industry is going through another period of transformation. The drivers of change are mostly external. Business requirements have changed. Investment strategy is increasingly contract based and model reliant. Customers are more sophisticated. Regulators are paying attention to the notions of price transparency and reporting accuracy. Products and markets are more complex. And margins continue to be squeezed along with cycles.

Equally obvious is that in order to operate in this environment firms need accurate, consistent, transparency and precise data. They need it to support innovation, meet reporting obligations, manage risks, deal with fast markets, automate processes, serve customers and operate efficiently. Gaining control over data assets is logical, mandatory to do business and ultimately inevitable. So the challenge that firms face is not one of business logic but rather one of business process, corporate culture, and operational transformation. Equally important is that financial institutions are not used to thinking about data content as a stand-alone issue to be managed. They are used to dealing with data processing, distribution and access – but data content in terms of consistency, accuracy, granularity and meaning is a relatively new concept for the financial industry.

Sustainable Business Circle

During one of the recent EDM Council's meetings in London, we had the good fortune to meet David Anderson, the former head of Electronic Regulatory Reporting for the FSA and now head of North Cardinal Ltd., a data management consultancy. Our discussions led to the creation of this sustainable data management strategy illustration designed to put EDM into context.



Business Processes: This segment reflects a few of the multiple business process areas where data is a critical foundational component. For example, precise data is needed to support investment strategy particularly with the rise of trading models and the need to evaluate performance against global benchmarks. Just as with investment applications, an accurate understanding of the requirements and business processes of clients and supply chain partners promotes up-selling, helps with cross-asset risk analysis and allows firms to capitalize on new opportunities like pooling and portfolio transition. Clean data is also needed for accurate

portfolio valuation, fund accounting and to determine the ROI related to customer support as well as to support operational automation and minimize breaks throughout the transactions chain. The goal is to pass on knowledge and support the relationship between internal processes – better, faster and cheaper.

Risk Mitigation: These categories were lifted straight out of the Committee of European Banking Supervisors risk assessment system, the final G-30 recommendations, the Gionanini reports, the BIS Basel Accord, and the CESR Transparency Directive. All these regulations, in one way or another, express concern about operational risk by pointing to all the places in the financial transactions chain where the process between trade and settlement can go astray. The message for financial institutions is to do whatever is possible to reduce operational risk. Higher risk translates into more capital to be kept in reserve. And reserve capital isn't productive capital.

Compliance: We have reduced the plethora of financial services regulation into three broad categories. The first are the risk criteria and the requirements for holding adequate capital in reserve as described above. The second are the requirements to verify business partners to meet the objectives of 'know you customer' and anti-money laundering legislation. The third are those related to meeting the objectives of best execution, price transparency and auditable transactions reporting associated with new market structure regulation (i.e. Reg NMS and the EU Transparency Directives/MiFID). And while meeting the regulatory requirements can be complicated, the operational risk dimension can be reduced to the ability of a financial institution to demonstrate 'providence over data and data processes.' And most firms admit that they are unlikely to pass the providence litmus test without an enterprise data management program in place. So, just as with business silos, data storage silos need to be unraveled and interconnected to promote more horizontal views of data and their relationships. The underlying data infrastructure is an essential pre-requisite for meeting regulatory obligations.

Electronic Regulatory Reporting: The final external driver is emanating from the fact that regulators are getting buried under volumes of paper and need better data management in order to be more effective regulators. In essence, they have the same problem as financial institutions in dealing with multiple databases and inconsistent formats which prevents them from normalizing data for comparative processing and analysis. As a result, global regulators are moving toward mandating electronic reporting and likely to do so in XBRL (i.e. SEC's interactive data program, FSA's mandatory electronic reporting initiative, OSC's electronic audit trail initiative). XBRL is the most mature XML schema and provides a way for regulators to instantly compare reports against requirements. The goal of the movement to electronic regulatory reporting is to build trust and confidence in the data sourced from multiple internal databases based on automated verification processes.

Data Objectives: It is one thing to identify the business and regulatory drivers; it is another to determine what are needed to fill the data management gaps. From a data perspective, the process starts with the requirements for precise and unique identification of financial instruments, legal entities and data elements. Granular symbology and precision of identification form the foundation of data management and are a pre-requisite for EDM.

Beyond precise identification, financial institutions are required to compare data pulled from different systems – which means getting ready for XML. Firms want consistent data formats to make processing easier and to reduce the need to normalize feeds and manage multiple transformation processes. They want electronic messaging to allow them to communicate all instructions and requirements (both internal and external) with precision. And they want commercial terms and conditions from data owners and vendors to allow them to use data in a way that is consistent with how the business is evolving. All this can be summarized as supply chain management and is being viewed as one half of the EDM Council agenda to manage.

Management Objectives: The other half (and more difficult part) of the equation focuses on the internal data management challenges associated with EDM. We've organized the issues into two segments. The first is the business case challenge including why data management is important enough to be a priority, where it fits in with all the other priorities and how to measure the ROI associated with its implementation. In response, the EDM Council has created its business case working group designed to focus both on the business metrics (i.e. justification of EDM funding and measurement of project effectiveness) and data quality metrics (i.e. definition of data quality objectives, requirements and measurement criteria). The second are the organizational challenges associated with implementation of EDM including how financial institutions are organizing themselves to manage data across functions, applications and business units and how they are managing their data improvement rollout strategies. A working group has been created to direct and evaluate the tactical documentation and best practice publishing activities of the Council in the areas of governance, centralization strategy, SLA objectives, technology transition and operating model requirements.

The EDM Council is a non-profit business forum for financial institutions to address business strategies and practical implementation realities for achieving enterprise-wide control over data content. The EDM Council has recently completed its initial research to better understand the current state of data management, define where firms stand on the EDM lifecycle, and determine where data-related gaps exist. Please don't hesitate to contact us at (atkin@edmcouncil.org) if you would like a summary of our findings and a description of the EDM Council agenda.