Silos Are Good For Farmers, Not So Good For Banks

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Next year will be the year of infrastructure, says Mike Atkin, managing director of the Enterprise Data Management Council. This will be the year that regulations will be written, probably. The deadline for regulations was mid-July 2011 but now it looks like they won't be ready until this summer.

Atkin sees a bright side here.

"All this activity has propelled data management into the eyesight of almost everybody, so we are quite thankful. Regulation is the motivation to address your underlying data infrastructure. How boring is that"

Then he quoted Rahm Emanuel said of the Obama White House, who famously kept saying it is a shame to waste a good crisis.

"This crisis will help us fix our data infrastructure and fix data standards."

That is required by regulators and it will be good for the industry, Atkin said. While admitting data management isn't necessarily exciting, the rules don't leave any choice. The broader value comes from combing work on a common infrastructure, data standards and integration of the data. This will require unraveling of silos, added Atkins, mixing his metaphors a bit.

"Unraveling the silos is still a wicked challenge."

Perhaps he meant spaghetti.

In any event, financial firms don't have any choice so they might as well do it right and gain some business value from the standardized data and integration, since the regulatory demands are the same things firm need to operate efficiently.

Although regulators, consultants and financial firms talk about the need to develop uniform global standards (at least when they aren't threatening to leave their current jurisdiction over the regulatory disputes) no mechanism exists to make this happen, other than one-off meetings of regulatory bodies and industry associations and occasional interest from the G20.

"I think everybody understands the value of global standards, and there is a consistent commitment to global standards," said Atkin. "What is missing is the mechanism for that kind of alignment."

He cited the Legal Entity Identifier (LEI) as an example. This is a plan to create a unique identifier for each financial institution and each of its subsidiaries, so that if the industry faces another Lehman, counterparties will know which part of the bank's legal structure they are dealing with.

LEI is straightforward and simple to understand. The reason why it is taking so long is that you have to create mechanism for global governance and buy-in, and that is difficult. They are trying to create the mechanism as they go and LEI is the first one." If this is successful and leads to the creation of an international coordinating body it could extend standardization to other aspects of finance such as definitions of instruments and the language of contracts.

With LEI, timing may be an issue. The American Dodd-Frank legislation called for an LEI, which meant the U.S. moved before the Europeans, who don't always take kindly to what some perceived as American unilateral action.

"It is a little bit U.S.-centric in the process so far," said Atkin. "The U.S. regulator had a mandate for LEI that got the U.S. trade associations to start the process. Then the U.S. recommendation was put on the table to the rest of the world and saying: 'Here it is; we hope its passes your evaluation.' People have to be comfortable that the process is fair."

In addition, he thinks the Europeans are being careful to ensure they don't violate any of their competition laws in the process of developing the LEI.

Progress is slow because this is new for the financial institutions and the firms, added Atkins. (He didn't mention the problem caused by Republicans' refusing to increase the budgets of the SEC and CFTC so they can hire people to write the new regulations in addition to taking care of their normal oversight functions.)

"The process of writing regulation for new areas like transparency, systemic risk and market stability — no one knows yet how to do that." So the regulators produce drafts, issue notifications and receive feedback.

It is slow and frustrating, because financial institutions are more comfortable with clear definitions — a rule and a deadline.

"Much of the regulatory discussion is at the philosophical stage." It is a little bit hard to translate philosophy into "What do I have to do?"