How financial services firms use technology to turn data into actionable insight

Thought leaders believe that building an LEM could help firms gain efficiencies and considerable long-term value.

Dealing with a complex entity

Faced with greater demands for transparency, regulatory reporting and cost cutting, financial firms are seeking new ways to extract more value from data more efficiently. Entity data is an ideal use case. Many believe creating a legal entity master (LEM) is an important opportunity to streamline workflow in the front, middle and back office. But the issue raises questions about ownership, technology and data governance.

All of these views were on display at a Roundtable Day in New York City held last October, sponsored by Financial Information Management (FIMA), the premier reference data, counterparty risk and data innovation conference. Each roundtable included select market data executives from leading firms.

During the event, Devesh Shukla, Global Head of Reference Data Product Development at Bloomberg, engaged with nearly 70 industry professionals about entity data. These conversations yielded important insights about how firms are developing effective strategies even as regulatory requirements change and cost-cutting attitudes persist.

Although the issue continues to evolve, signs of consensus are emerging. Specifically, the ways in which firms are approaching entity data align with broader themes of data governance that emerged at WFIC 2013.

Persistent data challenges

Few firms have established an effective LEM to service multiple functions across the enterprise. One challenge is determining who “owns” legal entity data within the firm. Teams across the front, middle and back office would all benefit from a reliable, updated LEM. But choosing one business unit to be responsible for maintaining an enterprise-wide resource can be difficult.
Firms understand the value of the LEM. But questions remain about development, ownership and maintenance.

Other issues include:

- **Governance.** The LEM aligns with data governance priorities such as standardization, consolidation of data and sunsetting of disparate legacy technology. Developing a standard approach to governance will better equip firms to build rules engines, define data structures and establish appropriate validation criteria.

- **Management.** Consistency, quality, timeliness, accuracy and coverage are all relevant issues for legal entity data. Silos in the firm lead to inconsistent, incomplete or obsolete records. Gaps in entity hierarchies make it difficult to gauge counterparty risk.

- **Technology.** To create an LEM, firms will need to invest in infrastructure and establish new workflows to acquire, store and manage data. Migrating data from legacy systems may lead to duplication. Demand for onboarding old and new entities and counterparties is constant. Linking the LEM to existing applications and ensuring all are properly aligned will take considerable effort. These challenges may be costly to address but should be prioritized so firms can benefit from the value of a centralized LEM.
REGULATORY INFLUENCE
Evolving regulatory requirements are changing the way firms view legal entity data. In general, these requirements have made the LEM a higher priority. For example, regulators now require legal entity identifiers (LEIs) to be included in Solvency II, AIFMD and EMIR reports. These and other regulations also require firms to capture attributes that were not previously recorded (such as regulation-specific sector classifications).

Another factor changing attitudes is the pace of regulatory change. Combined with current market realities, such as how often corporate structures are modified, regulatory changes are making legal entity data much more dynamic. It now requires constant monitoring and updating to remain accurate. In addition, legal entity data is becoming more tightly linked with reference data, client data and counterparty data.

One complicating factor is that firms must contend with demands from multiple governing bodies, some of which have overlapping reporting requirements. Making changes as each new regulation (or regulatory update) occurs is inefficient. With stronger engagement between regulators and the financial industry, these bodies could better synchronize reporting requirements so firms could establish governance rules that address them holistically.

Where regulatory requirements are making the biggest impact, however, is by compelling firms to invest in the additional resources required to maintain compliance. Data lineage is one example. As regulators continue to emphasize the transparency of internal and external calculations, firms are investing in sound data governance to manage data lineage properly. Building an LEM may be the next investment firms make in order to remain compliant.

In the same way, regulatory changes are exposing the technological issues all firms face. Platform consolidation, legacy updates and systems integration can be complex endeavors. Many firms still rely on manual data processing. Regulations often require change within short time limits, compressing already-tight implementation schedules.

One positive outcome of regulatory change is a renewed focus on enterprise workflow (as opposed to function- or application-specific processes) as a way for firms to improve flexibility and adapt to change more quickly.

CLIENT ONBOARDING DATA
As firms start to develop more overarching, enterprise-level data management mechanisms, client onboarding data will need to be incorporated.

Firms are interested in making the storage and collection of this data easier to manage. There is an opportunity at the point of collection to educate clients about the information and documentation now required to open an account. In any case, firms need to significantly improve the depth and breadth of entity identifiers. As a common identification schema, the LEI seems to offer the most straightforward solution.

Just as with legal entity data, firms need to standardize client data coming from many sources. While some firms are improving data governance and management, greater regulatory pressure may be necessary to establish a truly universal entity symbology.

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SPENDING TO SAVE
Internal cost-cutting mandates may hamper firms’ ability to capitalize on counterparty data. Operating under the “do more with less” mantra, firms are focused on reducing total cost of ownership while contending with high turnover among executive decision makers. They have prioritized projects according to the 90/10 rule, focusing resources on the 10% of data causing the most issues across the firm.

The cost-cutting mindset increases scrutiny on the business case for any new project. It takes more to convince the Board to invest, so firms have to develop more compelling arguments to prove ROI. One of these is “spend to save”; in other words, invest now in infrastructure, workflow, automation and governance to run more efficiently tomorrow. This argument is gaining credibility, especially as it becomes apparent that manual processes are not sustainable. This is good news for proponents of the LEM.

THE BOTTOM LINE
1. Legal entity data is a high priority.
These data sets are a vital resource across the enterprise. But their broad applications have lead to decentralized management, causing gaps, errors and inconsistencies. Firms want to develop a comprehensive LEM with enterprise-wide accessibility, but questions remain about ownership, maintenance, governance structures and the underlying technology platform.

2. The business case should spur investment.
In the current cost-cutting environment, long-term initiatives must demonstrate financial and strategic value to gain executive support. Because an enterprise-wide LEM delivers short-term efficiencies and long-term benefits, proponents can make a strong business case for investment right now.

3. Regulatory balance is critical.
Regulatory requirements encourage firms to centralize legal entity data but complicate their ability to do so by introducing new rules at a fast pace. Firms and regulators need to find commonalities among requirements from different governing bodies, as well as strike a balance between the investments required to stay compliant and how quickly new requirements are introduced.
MORE POINTS OF VIEW
The discussion doesn’t end here. Experts at Bloomberg are engaging these concepts in many ways with professionals from across the financial industry.

Peter Warms, Bloomberg Head of Product Development for Global Data and Symbology answers questions about the current state of entity data management and the LEI.

READ THE Q&A

Thought leaders from Morgan Stanley, HSBC Securities Services, State Street Bank & Trust, Asset Control and Bloomberg explore data governance practices at WFIC 2013.

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