

# Restoring the focus on enterprise data management



**Tim Lind,**  
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The EDM Council was launched in June in New York and held its second meeting in November in London. FSR talks to **Tim Lind**, Senior Vice President of Product Strategy at GoldenSource, and one of the founding sponsors of the Council, about the forum's priorities and strategy

Leading financial institutions have come together at meetings in New York and London to focus their attention on enterprise-wide integration of data management operations and reference and transaction data consolidation. The Enterprise Data Management (EDM) initiative concentrates on improving data quality and distribution of a broad spectrum of data, including security master files, trading positions, customer account records and transaction data. The forum is sponsored by five leading players in the financial data management space, namely Bearing Point, Cicada, GoldenSource, IBM and Sungard.

At the inaugural meeting of the EDM Council, held in New York on 16 June 2005, participating institutions, including CSFB, Pioneer Investments, Bank of America, Deutsche Bank, and Franklin Templeton, emphasised the value of effective data management at enterprise level to a company's competitive advantage. Members voted at this meeting that the Council's immediate priorities should be to establish a business case for EDM, and to develop a set of best practices and performance indicators – and working groups were established to map out strategy in these areas. At its second meeting, held in London on 2 November, the EDM Council's membership grew to 25 financial institutions, with firms including ABN AMRO, Barclays Capital, HSBC, M&G and Nomura joining as active participants. The importance of accurate customer and counterparty data, and the challenges presented in standardising data

management processes across a firm, were some of the key areas discussed at this second session.

## Reprioritising data management

While the value of the EDM Council should not be underestimated in refocusing industry attention on data integrity and consolidation, this agenda is by no means new to the industry. Reuters, Capco and TowerGroup published a White Paper in October 2001, entitled *Reference Data: the Key to Quality STP and T+1*, that highlighted the central role played by incomplete, inaccurate and inconsistent reference data in explaining why many firms failed to achieve STP within their organisations. Significantly, at this time, more than 35 per cent of respondents to the survey indicated that their firms did not have a coherent reference data strategy in place and had made little effort to automate their data management operations. The take-home message was that the industry simply could not sustain this level of inefficiency and that there were serious competitive advantages to be gained by addressing these areas of data inconsistency.

Given this set of issues have been under the industry spotlight for at least four years, why was there a need to establish an EDM Council in June 2005?

Tim Lind, who in his role as Senior Analyst at TowerGroup was one of the lead authors of the White Paper in 2001, explains that the five founding sponsors proposed the formation of the Council because they wanted to elevate debate on enterprise data management to senior management level. "In 2001, when we focused attention on this debate through the White Paper, we achieved considerable success in attracting support and participation from those closely involved with data management on a day-to-day basis – for example, operations staff responsible for administering securities masterfiles, market data vendors, and those managing workflow around business applications that use reference data," explains Lind. "However, when we tried to extend this debate up to senior management in order to explain the importance of effective data management at enterprise level, we found that our messages were greeted with limited enthusiasm."

content and external content sources, simply would not be tolerated in the world of transaction processing. "We recognise an urgent need to address these inefficiencies – and this demands attention from senior management that are in a position to coordinate an integrated approach to data management across the whole enterprise, rather than simply across individual business lines," says Lind.

## Regulatory drivers

The launch of the EDM Council is timely because many organisations are challenged with complying with a host of regulatory initiatives – including Basel II, the Markets in Financial Instruments Directive (MiFID) and Sarbanes-Oxley – that demand effective data management, and efficient data audits and reporting. In meeting the challenge presented by MiFID, for example, brokerage firms

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To some degree, this was a reflection of the financial climate prevailing at this time. Tight economic conditions dictated that many financial organisations were focused first and foremost on meeting their quarterly targets – and whatever resources they were able to dedicate to development projects were often already tied up with initiatives such as T+1 or GSTPA. As such, reference data issues typically did not rise to the top of senior management's priorities.

## Silo-based data management

The reality of the organisational structures prevailing within many financial institutions, however, is they are still organised according to a number of independent parallel silos – with little overarching risk framework in place designed to manage risk in an integrated way across the enterprise. This is a logical consequence of the way that business lines are structured within many organisations: the performance of each business line is measured on the basis of the profit and loss within that business area, and incentive systems are gearing to motivating staff to optimise profitability within their own individual silos. It is inconsistent to expect staff to conceptualise data management and risk management at the enterprise level, when the organisational structure is pre-destined to create a silo-thinking mentality.

The concern of the five sponsoring organisations in launching the EDM Council in 2005 is that there is still a significant gap between awareness and action in the financial services industry. The poor level of automation that the industry has achieved in capturing data, both from internal

need to be able to demonstrate pre-trade and post-trade price transparency and be able to demonstrate that, under best execution guidelines, they have found best price for each customer that they service. This places a high premium on the quality of securities and transaction data, a firm's ability to mark its trades, and the audit trail it can put around this process.

Similarly, in complying with Basel II, a firm must be able to demonstrate that it has a solid grasp of its credit and operational risks, and has robust procedures in place designed to measure, manage and mitigate these risks. By managing data, and managing risk, effectively, firms can achieve very real savings in terms of their risk-weighted capital allocation. These cost efficiencies are very obvious to senior managers and have been key in motivating interest in the themes highlighted by the EDM Council.

## Data refineries

In the preliminary discussions that have taken place within the first two EDM Council meetings, it has become apparent that some member firms have invested heavily in sophisticated new business applications, but without having given prior attention to addressing inefficiencies in their source data (see *Managing Risk at Enterprise Level*, FSR, Sept 2005, pp 39-45). "Companies have spent heavily on big, data-hungry trading, risk and compliance systems, but have not invested in developing the refineries that can turn raw data into the refined and enriched data that is needed to drive these systems effectively," says Lind. "GoldenSource is exactly such a refinery – driving the cleansed and enriched

securities data, customer and counterparty data, and transaction and position data, required to drive the highly-tuned engines that many of our customers have in place."

A defining feature of GoldenSource's suite of EDM products is the wide breadth of reference data components that it aims to manage within its EDM model. "GoldenSource has the capability to manage data that describes the products that clients trade, including a wide range of complex derivatives and structured products," explains Lind. "Importantly, we also have capacity to manage data that describes the customers that we service, the counterparties that they trade with, and the positions that they hold with those counterparties. Our EDM model enables us to bring this together to provide an integrated view of what is going on within the enterprise." Typically, the customer will implement these respective components in a phased manner – taking on one or two elements in the first instance and then progressively bringing more data onto their platform through a phased delivery approach.

While breadth of data is important, GoldenSource has come to recognise in its 20 years in the data management industry that equally important is the ease with which connections can be built with external content providers to allow reference data to be loaded into and out of a business application. "In supporting the customer, we focus broadly on connectivity with data vendors and on how we can build the publishing capability to the applications that require the data," says Lind. "In short, what we are doing is taking crude and turning it into a refined product – taking raw data, normalising it, testing it for integrity, applying consistent rules, and then publishing it out to engines that require it."

So far, it has been primarily Tier 1 global institutions that have opted to roll out GoldenSource's EDM products. However, a key challenge for the company is to extend this customer base out to smaller companies. Typically, second tier firms tend to base their data management workflows around a single key business application, often an accounting system, and this tends to leave them hostage to the performance of this business system in terms of its data sourcing. The data governance processes therefore tend to be application-centric rather than data-centric.

In building for this Tier 2 community, business needs can vary dramatically from client to client. Indeed, the requirements of the second tier asset manager, for example, will often differ significantly from that of a custodian bank or broker-dealer – and the key for GoldenSource is to package its software in such a way that it is configured to meet the specific requirements of each business segment. "To facilitate this, we are building what we call EDM Connections, which are connections into content sources such as Reuters, Bloomberg, Telekurs, or FT Interactive Data, that will enable data from these content providers to flow automatically into our tools," says Lind. All the logical mapping is done for the customer – and by delivering this package in a pre-configured format, the implementation timeframe for the customer, and the cost of ownership of the software,

are reduced dramatically. "This presents a whole new universe of challenges for GoldenSource, but it is key to our development," he adds. "There are only so many Tier 1 firms out there and for us to continue to grow, it is crucial that we can reach out to these new client segments."

## EDM Council Working Groups

On the basis of the priorities identified by Council members at the first meeting in New York, two Working Groups have been established and will present the preliminary results of their research to the next EDM Council meeting to be held in New York in the first quarter of 2006. Tim Lind explains that the first Working Group is preparing the framework for an EDM business case. This will be looking to identify how best to evaluate the value of investments in EDM and the overall benefits that these may generate. As its starting point, it will develop a model that quantifies the risks that firms currently face from poor data management: for example, how many times was a record touched after it was created? How many people are needed to create and amend the record? How many different workflow processes exist for the same type of function within the enterprise? And what is the cost of maintaining individual silos that are associated with only one data application?

The second Working Group is developing a set of Best Practices and Case Studies on Implementation. In the first instance, the group will examine how best to establish appropriate governance structures within a company to support implementation. It will also explore how best to get the appropriate business sponsorship together and how to ensure that the project is aligned with the strategic goals of the company.

When a company has established its organisational structure, it will need then to develop an execution plan. This will demand that it conducts an inventory of its current and future state and identifies how it will manage the transition between the two. In doing so, it must establish what technology will be needed to support the transition, how it will integrate this within its messaging infrastructure, and how it will link other applications to it. It will also need to plan how to manage its public relations campaign in order to win the confidence of the users and encourage them to build applications around these new facilities.

More broadly, the company will need to identify how it will roll out the delivery in order to manage its risk more effectively. Will it do so by data segment, beginning perhaps with international equities, then doing so sequentially for fixed income products, derivatives and other instruments? Alternatively, it may opt to do so by geography, or it may manage a phased delivery for specific downstream applications.

In summary, there are many alternatives that can be explored in managing the phased delivery of a project of this sort. The working groups are evaluating the respective strengths and drawbacks of each of these approaches. ■