



Will Enterprise Data Management Deliver the Competitive Edge for MiFID?

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The financial services industry is busily preparing to meet MiFID's November deadline. However, few have examined the fundamental data issues that are raised by this new directive.

For investors, MiFID should drive a highly competitive European marketplace where choice, efficiency and transparency are obvious benefits. But for financial service providers, MiFID presents a significant number of challenges in the areas of best execution, transaction reporting, record keeping, client classification and business conduct.

The new rules are destined to affect not just an organisation's technologies and processes for doing business but, more importantly, its competitive positioning. MiFID will bring about fundamental changes that will require institutions to adapt their processes and systems to make life easier for investors.

However, this places huge demands on the existing data foundations of financial services firms, affecting both volume and complexity of data needs and associated workflow. Organisations that still retain their data in silo structures, especially those with little or no internal consistency of business process or data modeling across the different business units will certainly feel the strain.

A True Test of Financial Services Business Models

Although it is clear that MiFID will bring about a significant restructuring of the investment environment, many of the details and specific compliance requirements have been slow to emerge from the offices of the national regulators in consultation with the Committee of European Securities Regulators (CESR).

While most financial firms recognise the potential to turn the MiFID compliance requirements into an opportunity for wider business process improvement, the extent of overlap between MiFID implementations and other compliance tasks, as well as the potential to create transferable benefits, remains hazy.

MiFID presents a fundamental challenge to all financial services business models, moving investment services from a national basis to a pan-European one. There has been a heavy focus on the technology aspects of the new market structure, particularly in areas such as pre- and post-trade transparency. Much debate has surrounded the amount of tick data that may have to be captured and stored. However, the real impact will be on the business models of the firms involved.

Determining the 'right' business model for any institution will have a tremendous knock-on effect on the technology and business practices of that institution. Deciding what constitutes best execution will influence how much data needs to be stored to establish if a trade was indeed executed correctly. Client classification, a key area to address in terms of the conduct of business rules, could make life easier if an institution wanted to only deal with professional clients rather than the more extensive requirements of retail clients.

Only by having a coherent business plan on how to address MiFID will firms be able to put in place the required technologies to support their businesses. That said, even with MiFID due to start in November, the final resolution on key data issues is still unclear and the market in general will need to resolve these in order to be ready.

While there will be a wider choice of trading venues, MiFID's emphasis on best execution, pricing transparency and auditability means financial institutions will have to choose venues that support their best execution policies. Will firms continue to support the national champions such as the

London Stock Exchange or Deutsche Borse or will liquidity and order flow move to new MTF's such as Equiduct and Chi-X? Or will the big banks move order flow internally as systematic internalisers?

This ambiguity about some of the expected changes has contributed to a certain 'wait and see attitude' by the industry at large, which undoubtedly will impact the ambitious implementation timetable. This has also been affected by the delays in EU governments implementing or transposing MiFID regulations into national law - only the UK, Ireland and Romania have achieved the transposition on time. In other words, not all national regulators are on target for publishing their local specifications and not all market participants across Europe will be ready to comply by the November target date.

Since it is likely that a large part of the market will be slow to fall in line behind MiFID, how far and how rigorous any penalty process will be applied is open to speculation. Regardless, we know MiFID is definitely happening and for institutions not to prepare themselves as best as they can and where they can, with the level of detail that has been agreed, would be to jeopardise their market position and maybe even their very survival.

Data Management - a Pre-requisite For MiFID Readiness

Despite the uncertainties surrounding MiFID, what remains clear are the challenges posed by the growth of data for trading purposes and the expansion of data storage for reporting requirements.

The directive demands that greater attention be paid to data aggregation and dissemination, reference data management and information exchange standards. Market transparency is the key theme and will provide greater opportunities for aggregation and dissemination of data. Various options will be open to market players including publishing via regulated markets, third party vendor or by proprietary means.

Data volume, both pre-trade and post-trade, will undoubtedly explode - putting more pressure on data management processes, systems and storage.

Counterparty data, in particular, continues to focus industry attention on the need to resolve data quality and standards. While a number of vendor offerings have come to market, there is no clear standard for identifying institutions. With an ISO standard for business identifiers still some time off, a number of workarounds will be required to support this style of data. All of these pragmatic choices and the business practices to support them will have to be in place by late summer to allow enough time to test and bed down systems.

Now, more than ever, the ability to pull data from disparate systems located throughout the institution, centralise it, consolidate it and ensure its quality for use across the organisation is going to be crucial. To meet the required transparency, there will be an increasing need to link reference data pertaining to customers or counterparties with instruments traded and transaction data such as positions held.

Establishing an integrated enterprise data management platform across geographic boundaries and functions will be a pre-requisite to not only meet the compliance demands known today, but also to support regulatory evolution and future customer behaviour.

The firms that have already invested in enterprise data, common systems and flexible architectures have the advantage that their compliance costs will be lower. The adoption of service-based solutions and architectures such as service orientated architecture (SOA) are steps that all institutions can take towards achieving compliance in a cost effective manner. In general, many third-party off-the-shelf front and back office software suppliers are already rushing to upgrade their products to make them MiFID-compliant. Indeed, a plethora of MiFID-ready offerings in order management, execution and settlement systems exist.

A Competitive Edge For a Post-MiFID World

The European investment climate will be significantly different in three to five years post MiFID. The ability to manage a firm's client, trade and reference data using an efficient and pan-European process that can also be used to support other compliance requirements will enable the better prepared firms to take the lead in what is becoming an increasingly competitive trading landscape.

The demands of MiFID in terms of how to deliver transparency, how to classify each client, each security and how to map a transaction and all the counterparties and agencies between them are challenging. Those firms that get their data needs right are likely to be those that will have a distinct advantage in attracting and retaining customers and liquidity. But to get from here to that point, many firms still need to define and prioritise the data issues that will cross business functions, regions and IT boundaries.

In a revolutionary way, MiFID opens competition by introducing a level playing-field between all execution venues in the European Economic Area (EEA) and reshaping the value chain across intermediaries, brokers, data vendors and investors. This transformation makes MiFID not just a regulatory event like Basel II, a technology event like Y2K, or a market event like the euro, but blends elements of all three into a fundamental challenge to all financial services business models. It's an upheaval that will come at a price, but compliance alone should not be the end goal. The institutions that develop products and services to benefit from MiFID opportunities in their strategic growth plans will be the real winners in this intensely more competitive European trading and investment landscape.

At the heart of every challenge lies the attention given to systems, processes and resources that manage the quality and reliability of data. The larger the firm and more complex its structure the more challenging its data issues will be, potentially threatening its very business model. Standing still is simply not an option.