An Industry Briefing Prepared by:

ReferenceDataReview.com

CROSS-REFERENCING ENTITY DATA FOR A CLIENT-CENTRIC VIEW OF THE ENTERPRISE

May 2014

Sponsored by:

alacra

Introduction

A raft of regulations designed to address systemic risk is requiring financial institutions to get to grips with their entity data. The US Dodd-Frank regulation, meanwhile, has spurred the development of a standard global legal entity identifier (LEI), which holds the promise of meeting institutions' needs for a common nomenclature for dealing with data on customers, counterparties and issuers.

But it's still early days for the Global LEI System (GLEIS), and there is much work to be done before the LEI can take on the role of default identifier for legal entities worldwide. With regulators breathing down their necks, financial institutions are seeking to meet the new requirements by establishing a single client view from the multiple data sources that they use.

In so doing, they are finding that not only are they able to comply with Dodd-Frank, European Market Infrastructure Regulation (EMIR) and other trade-reporting requirements, but also they can reap business benefits in the form of streamlined Know Your Customer (KYC) processes.

This paper looks at the regulatory and business challenges facing firms as they struggle to institute a client-centric view of their data, and explores how cross-referencing data sources can help them achieve their entity data management goals.

Current Industry Landscape

Much of the regulatory impetus in the wake of the 2008 Credit Crisis has focused on reducing systemic risk. Since the implementation of Dodd-Frank in the US and through to the recent launch of EMIR in Europe in early 2014, regulators across multiple jurisdictions have sought to ensure there is no repetition of the liquidity crunch set off by the default of Lehman Brothers more than five years ago.

It's widely accepted that much of the fallout from the Lehman Brothers default was caused by lack of transparency around entity data. Specifically, many financial institutions were unaware of their exposure to Lehman. Although they held debt instruments issued by the big investment bank, many had been issued by Lehman subsidiaries with completely different names from the parent and were not easily traceable back to Lehman.

To give some idea of the magnitude of the problem, it's worth noting that until its filing, Lehman operated internationally through some 7,000 different legal entities in more than 40 countries, according to the law firm Morgan Lewis. As a result, the law firm reckons there are currently at least 75 separate Lehman insolvency, administration, liquidation, rehabilitation, receivership and like proceedings pending in courts throughout the world, each run by a debtor-in-possession, or by a court-appointed liquidator, administrator, trustee, custodian, supervisor or curator.

To address this transparency issue, the US Dodd-Frank Act spawned an initiative that would create the GLEIS. So enthusiastic were regulators to install a standard symbol for identifying legal entities that the US Commodity Futures Trading Commission (CFTC) adopted the LEI even before it had been fully developed, and encouraged the issuance of so-called pre-LEIs to swaps market participants.

It's been just over a year since the Financial Stability Board (FSB) of the Bank for International Settlements (BIS), a prime mover in the development of the new standard, handed over leadership and direction of the interim GLEIS to a Regulatory Oversight Committee (ROC). The ROC is charged with shepherding the nascent standard to global acceptance and implementation, and its chances were bolstered in February, when use of the LEI was mandated for entity identification under EMIR.

Elsewhere, the US National Association of Insurance Commissioners (NAIC) has specified the LEI for members' identification of counterparties to insurance company investment transactions. The European Banking Authority (EBA) added its voice in January 2014, when it recommended that all credit and financial institutions in the EU should adopt the LEI for supervisory purposes. The introduction of the EU's Solvency II regulation, with preparations starting in 2015, is expected to further boost adoption of the LEI.

Given the clear alignment of key regulators, one could be forgiven for thinking this was the end of the story as far as entity identification is concerned. But that would be a mistake. Right now, the LEI is fit for a single, regulator-mandated purpose – transaction reporting. Coverage is sporadic both in terms of the types of entities that have LEIs and geographical coverage. For example, only about 10% of companies with listed securities and less than 25% of rated issuers have been issued an LEI. And while there has been progress in the US and Europe, adoption in Asia has been extremely limited.

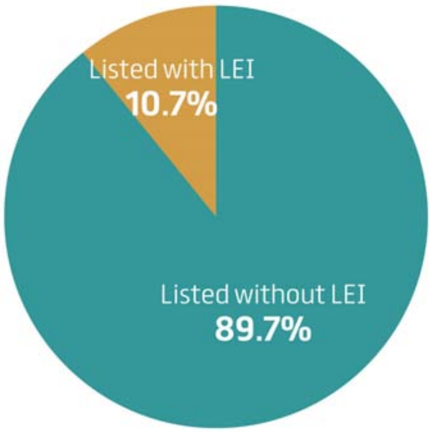

Figure 1: Percentage of Listed Entities with LEI

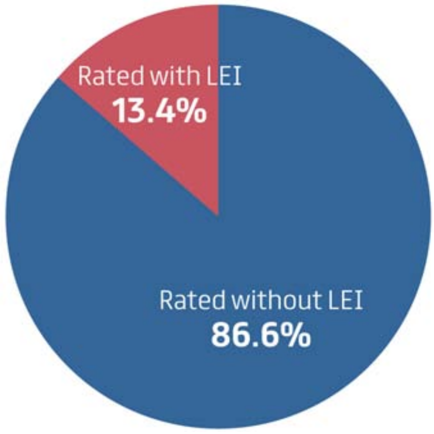

Figure 2: Percentage of Rated Entities with LEI

Until and unless coverage expands and the number of use cases increases, the LEI will remain a niche tool providing limited value to financial institutions' primary entity data management initiatives. Market practitioners will have to comply with regulators' requirements to use it, but at the same time find other ways to more effectively identify clients, counterparties and issuers.

The Entity Data Requirement

Well before the trade reporting mandates emerged, many financial institutions had embarked on a mission to put their entity data houses in order. They were driven by a variety of business requirements that pointed to the need for a more entity-centric view of their operations.

Requirements for a more entity-centric - as opposed to security-centric - view came from functions such as KYC, client on-boarding, counterparty and credit risk management, and portfolio risk management. In all these cases, firms are seeking to establish consistency across their various operations, lines of business, geographical locations and applications, so that each is able to accurately identify entities the firm comes into contact with in its business operations.

But financial institutions are still struggling to develop a single customer view, which is essential to meeting the business requirements outlined above. Recent A-Team Group research indicates that many institutions – large and small – are enmeshed in multi-year, sometimes multi-million dollars budgeted projects to unify client information across operations and introduce consistency with entity data used to identifier counterparties and issuers.

Part of the issue is the complexity of the source data, with firms using many different internal and external databases to ensure comprehensive coverage and to meet their business and regulatory needs. For instance, firms need to know the regulatory or listing status of their clients in order to ascertain and rank their risk profiles and calculate overall exposures. This can require mapping risk information to regulatory identifiers and other dynamic data.

And KYC – enforced by multiple regulations and legislation like the US Patriot Act – requires financial institutions to have available all information about any given client. Again, this points to the need for a client-centric view.

This situation is forcing financial institutions to find ways to map these disparate data sets to each other in order to gain a single view of the customer. The emerging LEI standard clearly has a central role to play in these efforts. But right now, the LEI is an island that needs to be mapped to other data sets in order to make it at all useful.

The Current Industry Response

As well as their own business-led initiatives, financial institutions are finding that new and incoming rules and regulations are creating the need to pull together the various sources of entity data at their disposal in order to get a consistent and comprehensive view of the entities they deal with, whether as clients, counterparties, issuers or suppliers.

In addition to the LEI and any internal/proprietary identifiers they may have developed, financial institutions typically utilise a range of entity data sources each of which has its own entity identifier. These may include commercial identifiers like Swift's Business Identification Code (BIC), Dun & Bradstreet's Duns Number, Markit's RED Code, the Bloomberg identifier, and others from Fitch, Moody's and Dealogic, or 'official' numbers like the UK Financial Conduct Authority's Registration Number (FRN).

Mapping these data sources together can help firms meet their regulatory requirements. But there are also significant business benefits from creating, in essence, an internal 'phone book' of all possible clients and counterparties, with hierarchies indicating linkages between the superset of entities that a financial institution's business touches.

A single view of customer data is emerging as a requirement for compliance, risk management, sales and marketing. Within many financial institutions, there's a separate customer/entity reference database in each of these business functions. This can lead to an inconsistent approach to the same client when providing different types of services.

KYC rules are mandatory, highly regulated and increasingly rigorously enforced, so investments must be made to ensure a consistent client view. These investments can be leveraged across other business functions.

Through entity identifier mapping, legacy assets or disparate data silos can be connected and customer data can be reconciled. This can yield any number of benefits. For one thing, it addresses the issue of stale or out-of-date data, which is more difficult to monitor or update when held in multiple instances across different business areas. This approach also lowers the cost of owning and managing customer data, and ensures a consistent approach to better meet regulatory requirements.

More broadly in the sales and marketing functions, more accurate data leads to better, more effective cross-selling opportunities. It also leads to a better user experience by reducing irritating errors in customer information.

From a risk management perspective, a single client view is paramount. For example, the counterparty risk of the parent will affect the risk of any subsidiary company and vice versa. A firm's calculation of counterparty risk is rolled up based upon hierarchy, geography and products, and a single view of the entities involved can help ensure accuracy and consistency. Finally, at the most basic level, the regulatory and listing status of an entity will often determine whether a counterparty is low risk or otherwise. As such, firms need access to accurate entity information.

Sell-side operations are particularly susceptible to the problem of applying changes in entity identifiers to historical data, and ensuring that corporate actions have been applied correctly. Additionally, historical data used, for example, for back-testing of new risk capabilities, or for proving risk models to a regulatory body, is often sourced from multiple suppliers with each using its own identifier schema. Mapping between these schemas can be a challenge, requiring a huge amount of manual effort and adding cost and risk to the overall picture.

Addressing these challenges has been cited as part of the rationale behind the GLEIS. But while many firms see the LEI as a welcome step in the right direction, the regulatory environment is forcing them to act now. To get things moving, they are increasingly looking to outside help to meet their regulatory and business entity data integration needs.

Introducing Alacra Reference Data Solutions

Alacra's Reference Data Solutions aim to address many of the issues faced by financial institutions as they strive to meet new regulatory requirements and enjoy the promised business benefits of robust entity data management.

From the 'entry-level' Alacra Authority File, through to its custom Concordance and Legal Entity Directory solutions, Alacra helps firms of all sizes come to grips with their entity data.

The Alacra Reference Data Solutions suite allows financial institutions to map their internal customer, counterparty and issuer databases to every major database of entity data. The entire solution set utilises a hub and spoke design in which every entity gets an Alacra ID that is mapped to all other IDs. With a single entity ID, you can find its corresponding IDs across all the data sources you use.

Alacra has been integrating pre-LEI data files frm endorsed pre-Local Operating Units into its services as the data has been published. Equipped with the latest LEIs, as well as data covering rated, regulated and listed companies globally, subscribers to the Alacra Authority File receive a comprehensive entity identifier map and are able to identify low-risk clients and counterparties.

With many additions covering funds, trusts and special purpose vehicles (SPVs), few of the entities that have been assigned a pre-LEI to date are rated, regulated or listed. As a result, the Alacra Authority File has almost doubled in size from over 200,000 entities to almost 400,000 entities.

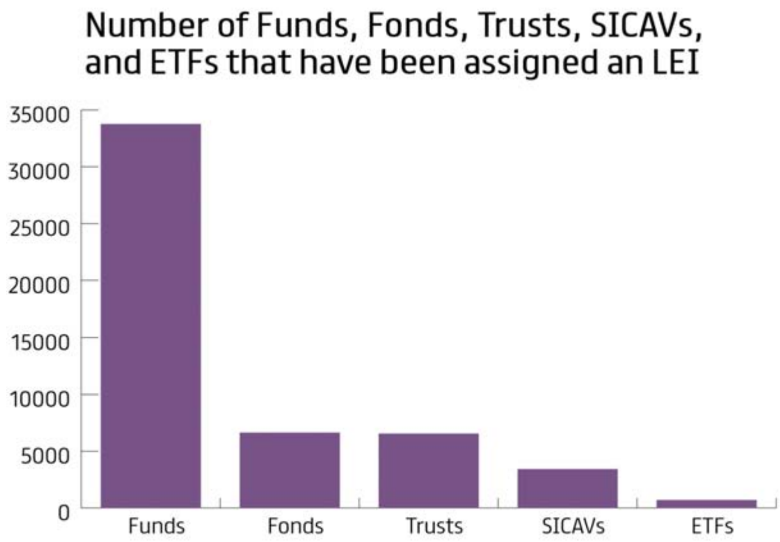

Figure 3: Constituents of the Global LEI Database

For institutions with more demanding requirements, Alacra Concordance provides a customer-defined database of entities that is cleansed, de-duped and maintained by

Alacra and to which entity identifiers can be appended. Covering some 625,000 entities, Concordance can yield clients a pristine CRM database that contains smaller companies not included in the Alacra Authority File.

Finally, the Legal Entity Directory is a database of some 3 million entities composed of the superset of entities from several publishers (Bloomberg, Markit, ratings agencies, and so on) that Alacra aligns and maintains. From this, users can achieve the Holy Grail of a reference data 'phone book' of all entities – clients, counterparties and issuers – that it touches in its business operations.

In each case, Alacra provides a breakdown into four categories: Regulatory (eg, FSA FRN), Commercial (eg, Markit Red Code), Publicly Available (eg, Exchange ticker), and Industry (eg, GICs). The Alacra Reference Data Solutions suite offers financial institutions a single point of entry to all entity data sets, ensuring consistency across all entity information across the enterprise.

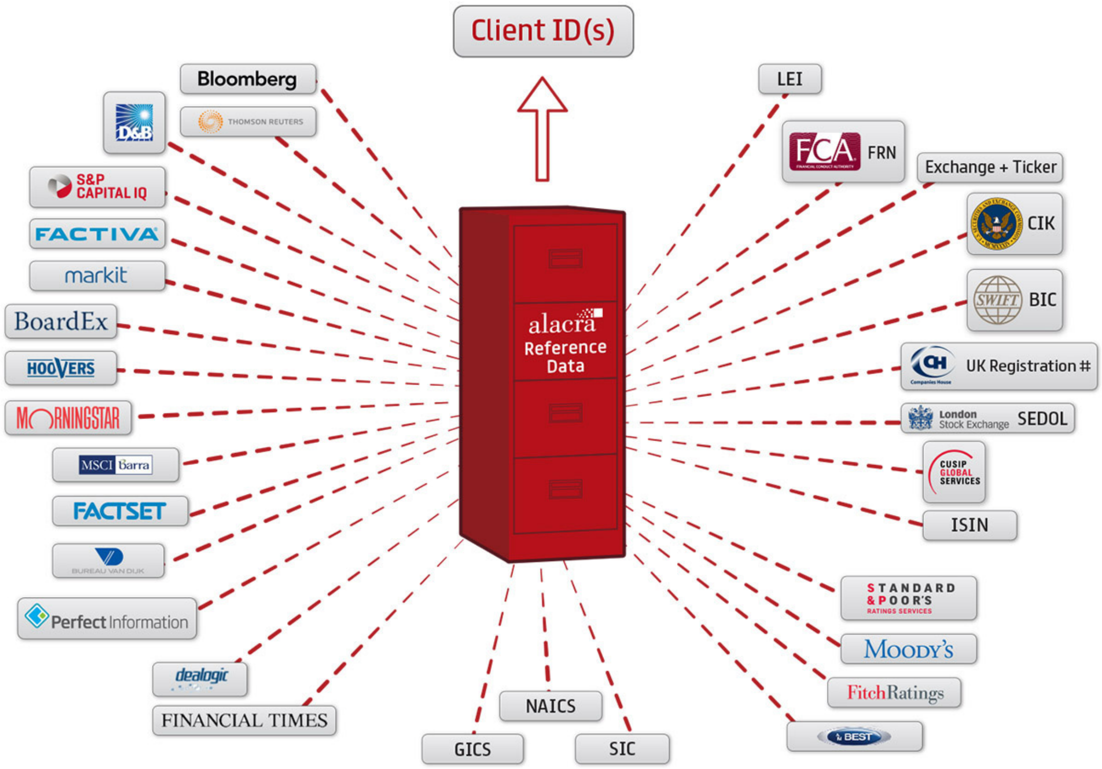

Figure 4: Using Alacra to Cross-Reference Industry Data Sources

Alacra

Alacra develops workflow applications that enable 300,000 end users at over 200 financial institutions, professional service firms and corporations to find, organise, analyse and present mission-critical business information.

With almost 200 unique databases available to our clients, Alacra has under licence the largest collection of premium business information in the world. We incorporate these databases into configured solutions that bring an efficient, consistent and thorough process to client onboarding, client screening, vendor risk management and front office business research. By combining licenced and web-based content Alacra also provides a range of entity reference data solutions that help our clients maintain extremely accurate legal entity data and meet global regulatory requirements.

www.a-teamgroup.com

A-Team Group 'gets' the business of financial information technology. It's what we do and what we are passionate about.

Since 2001 we have delivered news and analysis, in-depth research, and events for financial institutions, technology and data suppliers, regulatory bodies and more. So whether you are into reference data, looking for low latency, want to manage your risk technology, or thinking big data, we've got the information you need!

Find out more about what we do by visiting our website www.a-teamgroup.com

And if you are a technology or data vendor on a quest to demonstrate your thought leadership, generate quality sales leads and measure the success of your marketing campaign, we have creative ways to help you achieve your goals. Find out about Smart Marketing, The A-Team Way by visiting www.a-teamgroup.com.

Or contact us:
Call **+44 (0)20 8090 2055** Email **info@a-teamgroup.com**

For sales, contact Caroline Statman at **caroline@a-teamgroup.com**

For editorial, contact Andrew Delaney at **andrew@a-teamgroup.com**