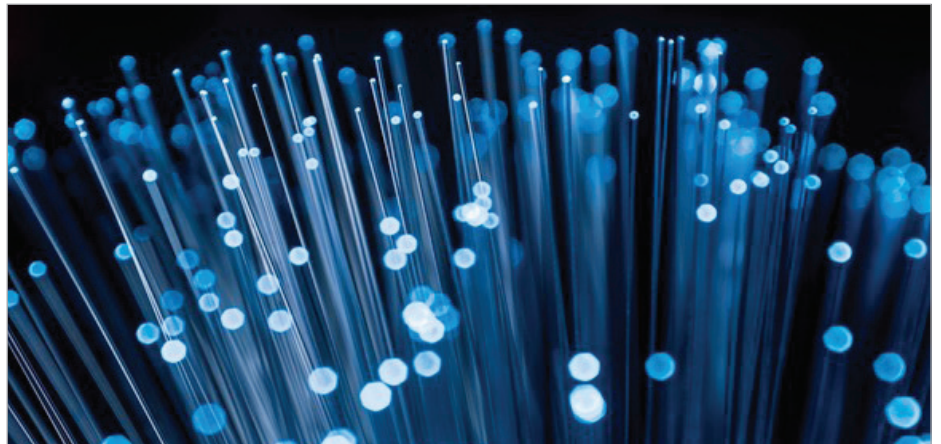


Utilitizing Reference Data

As firms continue to face growing volumes of reference data and increasingly complex datasets, the market is shifting towards shared data management services. The first full service reference data utility with support from tier-1 organizations was launched last year, and more firms are now recognizing the opportunities to reap the benefits of managing data in a utility designed to deliver better and cheaper reference data to all member firms.



When the financial services industry first started talking about utilities, it seemed like managing reference data in a utility was a distant dream. Now it is not only a dream, but for some firms managing reference data in a utility is the norm. In 2015, the first fully operational industry-led reference data utility, The SmartStream Reference Data Utility (RDU), was launched, backed by Morgan Stanley, JP Morgan and Goldman Sachs. The introduction of a true utility with support from tier-1 organizations was then seen as a turning point for the industry, highlighting that the market is ready for change.

Reference data is essential for completing transactions and succeeding in risk management, but growing volumes of data and increased complexity have resulted in expensive data cleansing operations that are difficult to justify in a cost-conscious environment. Instead, firms are increasingly questioning the competitive advantage of managing reference data in-house, acknowledging the clear benefits of sharing the high cost of managing data by moving to a utility environment.

In fact, an exclusive WatersTechnology survey reveals that the majority of users now agree on what defines a utility, no longer confusing utilities with vendors that aggregate data and deliver a reference data feed to clients, and close to 30 percent of firms plan to evaluate a move to a utility in the future. In other words, firms are increasingly embracing the utility concept,

looking to share the burden of cleansing, consolidating and normalizing legal entity, security, instrument, corporate action and pricing data to improve quality and reduce the risk of trade breaks. Peter Moss, CEO of The SmartStream Reference Data Utility, says the RDU has the opportunity to reduce inefficiencies on a large scale, as it is supported by an expert team and data is cleansed once, made consistent once, and delivered with much greater quality and greater efficiency.

In the past, the industry has been accused of “reinventing the wheel” when it comes to reference data management, and for those new to the industry it might sound obvious that this had to change at some point. The current environment – characterized by a tremendous focus on cost savings and pressure to meet ever-changing regulatory requirements – has created the perfect storm to fuel change and get rid of expensive data cleansing processes that could be replaced by shared services.

Although firms expect to see cost savings from sharing data-processing costs with other capital markets entities, a move to a reference data utility is also about reducing risk. Firms are currently writing off huge losses due to trade breaks, and based on the WatersTechnology survey, the consensus is that there are obvious opportunities for a utility to play a part in reducing the number of trade breaks caused by bad data. In fact, almost 90% of respondents say they would expect to see a moderate to significant reduction

in trade breaks caused by incorrect reference data after moving to a reference data utility service. With this in mind, it might not come as a surprise that almost 40% say the most important way a utility could deliver value to their business is by helping to reduce operational risk and the costs of trade breaks caused by incorrect data.

Existing stakeholders have commented on the RDU being in the best interest of the industry, offering the potential to deliver improved market efficiencies and reduced costs, and the expectation now is that more will follow suit to leverage the indisputable benefits of working together to get the data right. In the survey, close to 30% say they have a data project in 2017 that they think could benefit from a utility reference data solution, suggesting that a number of firms might soon consider joining the tier-1 organizations that were involved in the RDU launch.

Now that a utility is a reality, it is no wonder firms want to pool their resources and get data standardization, consistency and quality fixed in unison. A true reference data utility has been a long time coming, and each capital markets firm now has the opportunity to join the growing community of firms that want better and cheaper data.

The WatersTechnology survey on reference data utilities was conducted in July 2016, and the results were presented in the whitepaper titled Utilitizing Reference Data: What to Expect When Moving Data to a Fully Operational Utility.