

Reference data – the unsung hero

SmartStream's specialised reference data business, is quietly helping the financial industry in a variety of ways, says Linda Coffman, EVP of SmartStream, whether that involves supporting regulatory initiatives or empowering innovative uses of their data by firms to create vital competitive advantage.

SmartStream's Reference Data Services (RDS) was founded as an industry initiative in partnership with sell-side tier one banks. The banks were spending between \$100m to \$150m on the technology and operations to process their security masters, but still weren't getting the results needed from traditional data vendors and outsourced data operations teams – at a minimum, 30% of trade breaks were due to bad or missing reference data. Initially, it was thought that reference data was homogeneous and non-competitive, so participants converged to solve a set of foundational problems. However, it quickly emerged that timely, accurate, and complete instrument and regulatory reference data gave them competitive edge.

The RDS is staffed by a team of experienced in-house subject matter experts. Their mission continues to be to help institutions meet a diverse spectrum of data-related needs, by providing access to accurate, reliable, and timely reference information, and assisting clients to comply with regulation, drive efficiency, and boost competitive edge in the pursuit of alpha.

The RDS also provides data management outsourcing. In this instance, a firm need not buy any of their specialised data sets, which other providers do not offer to the same quality. Instead,

we partner with our clients to build bespoke data sets and workflows to help reduce internal inefficiencies.

Essentially, SmartStream RDS is a managed service, driven by client needs. In recent years, the business has responded to several pressing industry issues, from spearheading initiatives such as becoming the golden source for the Systematic Internaliser (SI) Registry, developed in response to gaps in the MiFID II regime, to supporting the global numbering agency, ANNA DSB, as a reference data aggregator and symbology cross-referencing for its UPI Service.

Powering regulatory initiatives

From October 2023, the Derivatives Service Bureau (DSB), founded by the Association of National Numbering Agencies (ANNA), will become the sole provider of Unique Product Identifiers (UPIs) – an additional identifier for OTC derivatives. The UPI introduction, a G20 initiative, facilitates the global aggregation of OTC derivatives transactions, helping authorities to analyse trade data, and tackle systemic risk and market abuse. US firms will begin using UPIs in January 2024, with EU, UK, Australia, and Singaporean firms following later in 2024 and beyond.

As part of its UPI Service, the DSB allows

users to identify the underlying instrument of their OTC derivative contract using a number of market and vendor identifiers. Firms will now be able to submit a Sedol, CUSIP or FIGI when creating or searching for a UPI. Leveraging the RDS' powerful symbology cross-referencing techniques and vendor management services, the DSB connects the dots between market and vendor identifiers and the ISIN, which is the primary identifier for equity and debt underlier instruments. The in-depth symbology cross-referencing expertise is a subset of RDS' securities reference data and supports the DSB in enabling firms to streamline their business processes. The Reference Data Services business is an "unsung hero" in the story, as users may be unaware that its capabilities are a key factor in allowing users flexibility to use the underlier identifier of their choice in the UPI Service.

The inclusion of alternative identifiers has been made possible by a partnership between ourselves, the DSB, and the Intercontinental Exchange (ICE). ICE provides the standard identifier data, while we act as an aggregator, processing the data from ICE on behalf of the DSB, cross-referencing this information as needed, and acting as a single point of contact for the DSB.

The RDS is adding the UPI to its current interface for ISIN lookup, as it's an input into its regulatory products. The RDS is often "its own customer" as is the case with the Exchange Notification Service (ENS) for the maintenance of their own Exchange Traded Derivatives (ETD) data.

Tackling complexity

As the variety and volume of derivatives contracts being traded increases, the complexity snowballs due to non-conformity across exchanges. Yet firms still deal with this information in a surprisingly fragmented and manual manner. This is especially pronounced for listed derivatives. Complexity and manual processing increase the likelihood of mistakes. Errors are costly and disruptive, and one way in which we are helping institutions navigate the hazards posed by growing complexity is through its ENS.

Presently, monitoring notifications from exchanges trading in derivatives is laborious and

requires experienced resources. Institutions often use several teams to trawl through the same notices searching for information that results in replication of effort, disagreement between different groups over the interpretation of notices, or overlooked vital information. If a notification is missed – for example, in relation to an exchange event like the file format changing – this leads to increased risk or expensive mistakes.

ENS is unique to SmartStream's RDS business. Developed in partnership with a hedge fund client, and maintained by a team of skilled experts, ENS delivers a normalised, consolidated view of exchange notifications related to the management of listed derivatives reference data. The service offers a cost-effective, accurate, timely alternative to tracking notifications in house. ENS data feeds into an organisation at a central point, and can then be distributed, via the desired workflows, and made available to multiple teams. It also has is a front-end web interface that integrates the notifications into a workflow platform, so users can filter the indexed and tagged notifications. This allows users to eyeball notifications and assign them to the appropriate resources and systems. ENS is a single source of up-to-date and reliable data, overcoming the headaches of fragmentation, lowering exposure to risk, minimising the probability of omissions and errors, and ensuring that effort is not replicated.

Creating competitive advantage

Today, the most successful financial businesses are those that recognise that having high quality reference data is not simply about avoiding mistakes – though this is important. The firms most likely to flourish are those who use the same security master data across functional areas. For example, the ETD service shows how firms can consume security master data that also facilitates regulatory reporting such as EMIR. Another example is a hedge fund carrying out sector and industry classification, i.e. reference data, arbitrage, with the same classification data then being used by risk managers for portfolio valuations.

Forward-thinking companies are keenly aware



of the power data holds, viewing it as a source of strength and driving profitability, for example, through arbitrage opportunities or the generation of new revenue streams. Among the institutions we serve, there is a growing appreciation that the more accurate, faster, and reliable reference information entering the business is, the better – and more profitable – front office decision-making is likely to be.

The experienced, flexible data specialist

SmartStream, is assisting many financial services

organisations, ranging from international banks, with a centralised, in-house approach to managing data, to small niche investment managers, looking for expert guidance as they set out on their “reference data journey”. The RDS business has, truly “come of age”, maturing into a specialised data business – experience which is recognised by a global numbering agency using them to meet the mandates given by multi-jurisdictional regulatory bodies to deploy its capabilities to underpin a new service. ■