

Membership Has its Privileges – Business Entity Data

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At the heart of working with market and reference data is a well recognized fundamental principle that “organizations issue one or more securities that are quoted on one or more markets by one or more market participants”¹. This one statement sums up one of the persistently complex and difficult challenges in supporting today’s data intensive analytical applications – the need to put an interest in a particular issuer (whether it’s via an equity, debt, or derivative exposure, either directly or indirectly) into a broader context that addresses the evolving needs of better measuring, understanding and monitoring risk.

Most reference and market data systems provide a link between an issuer and their associated securities, as well as the markets where they are quoted. Some services further extend this information to identify the relationship between a derivative and the underlying cash instrument. While these links can provide a view into the capital structure of an individual issuer, by themselves they fail to identify the universe of issuers related by ownership as part of a broader “corporate group”. In turn, this shortcoming results in a lack of visibility into the range of securities issued by the other members of the group.

Business entity data opens up this hidden dimension to understanding better the risk associated with taking a position in any given security. For any given issuer, business entity data identifies the organizations related by ownership along with the issuer’s place in the broader corporate group.

Business Entity Data Defined

The first thing to be aware of is that business entity data is a very specialized subset of reference data. In and of itself, it really doesn’t provide any significant additional business data content. Rather, it provides the points of reference to linking issuers to their securities and issuers to other corporate entities to which they are linked through ownership. By extension, of course, this relationship goes full circle and serves as the basis to identify all the securities associated with all the members of the broader group.

The real value of business entity data makes itself known when combined with security master and other business data content, allowing applications to embed a mapping of corporate groups to the instruments (and related derivatives) associated with the members of the corporate group. By deploying business entity data alongside existing in-house information services, maps of the ownership structure and related securities can be rendered to provide a more detailed background picture of any one issuer. While on the surface these interrelated structures can seem complex, the

¹ *Market Data Explained: A Practical Guide to Global Capital Markets Information*, Butterworth Books, London, 2006

benefits resulting from integrating these data sets can be significant to a variety of functions across the enterprise.

Books & Records Management

The most obvious upside from taking delivery of business entity data is that it allows for an additional source of content to be used in uniquely identifying specific organizations. This precision is increasingly important to a number of business management functions as it allows for greater detail in tracking business day to day, calculating profit and loss, and managing exposure.

Risk Management

It's in the world of risk management, though, where some of the most interesting applications for business entity data content are starting to be seen. Two developing areas to watch are credit risk and market risk.

In the credit risk world, the rule of thumb is to "always know thy counterparty". By identifying a specific firm as part of a broader corporate group, a deeper picture begins to emerge for risk managers. Previously unidentified risk factors arising from a counterparty's place in the ownership hierarchy of the broader corporate group now becomes part of the credit assessment. Equally, identifying all the organizations making up the corporate group and the universe of securities they issue provides a detailed breakdown of the broader capital structure to which the counterparty is exposed.

Coupled with the financial performance of the organizations making up the group, the risk associated with individual counterparty members can be quantified and tracked over time. As a result, next generation credit monitoring applications— such as dashboards – that update in response to the availability of new reports can be added to the risk manager's toolbox.

Of course, the reverse is also true. Seeing a counterparty in the context of the complete corporate group may also serve to reinforce credit worthiness, perhaps allowing for the opportunity to grow business mutually.

On the market risk side of things, knowing the membership of the corporate group and linking the individual firms to the universe of securities they issue, opens up the ability to monitor a much more complete picture of capital structure. So a rapid sell-off in one security in the group can be spotted before contagion sets in, spilling over to the other members of the corporate group.

Going one step further, a map of the securities of interest and related derivatives contracts can equip the risk manager with the information to implement a hedging strategy to mitigate the risk. The relationship between the derivative contracts and the security provides a powerful means by which to detect and guard against negative changes in value before they impact the portfolio.

Investment Strategy & Research

The other side of the risk management coin suggests that business entity data can also have a significant impact on developing, testing, and deploying new investment strategies. When combined with pricing and other key reference data, empirical measures of performance across the corporate group can be identified. When monitored over time or back tested against historical databases, new correlations and trends can be identified, powering next generation investment applications.

The key factor linking these and a growing number of potential applications is the ability to put a security and its issuer into the broader context of its membership within a broader corporate

group. Business entity data is proving to be the missing link in combining complex reference and market data sets to support deeper levels of analysis and next generation business applications.

It's early days in the business entity space and there are a lot of activities underway across the industry, but the potential for new applications providing such a deeper view into the context behind a given security and its issuer makes it a trend that bears watching. To be sure, business entity data is complex and integrating it with security master and pricing information presents a set of challenges. The potential business benefits from knowing the membership of the broader corporate group provides the fundamental building blocks to deeper analysis and, in turn, both improved risk management as well as new business.

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