

Effective data management – a strategic advantage in these times of change

Robert Cumberbatch
Business Lines Director, Pricing and Reference Data
Interactive Data (Europe)

Published in *Global Custodian – Data Services Black Book 2008/9*

If the events of the past year have taught us anything, it is that the only constant in the global financial markets is change. This change is taking many different forms, from a broad market downturn that impacted the credit markets and shuttered a number of long-standing financial institutions, to new regulations, accounting rules and even more complex financial instruments.

During this time of significant market transformation, the importance of effective data management as a key component of risk management within financial institutions has been magnified. For many years, data management was frequently viewed as an overhead at financial institutions. Now, institutions can view their data management as a strategic advantage towards helping them meet risk management and regulatory demands.

In these times of extreme volatility and uncertainty, effective data management can help institutions continue to explore new opportunities and work to grow their business, while remaining compliant with regulations. At the core of data management is the need for comprehensive valuation information and high-quality reference data that can help financial institutions power mission-critical operations.

By prioritising reference data management, institutions can get a more complete understanding of the financial instruments streaming through their applications and databases and, as a result, manage risk more effectively. For example, effectively managing and reviewing reference data can help investors understand the underlying dynamics of a security and help them determine their risk exposure. Even though a security may have an AAA rating, that rating may be supported by internal or external credit enhancement. To understand the risk profile of that security, it can be crucial to know whether that credit enhancement will hold up under stress. Interactive Data delivers the underlying ratings details of municipal bonds needed to assess the underlying risk profile of insured municipal securities. This information is critical as it provides clients with additional transparency to somewhat opaque investments and can be used to measure their risk exposure. With consistent, timely and accurate reference data, institutions can gain additional transparency into these details.

Interactive Data provides a huge raft of essential reference data, which can help institutions to realise a competitive advantage by making more informed investment decisions.

Independent valuations of complex OTC derivatives and structured products, as well as evaluations of fixed income securities, are seeing increased demand. Financial institutions have been working to ensure that they have a firm grasp on the value of their holdings. Assessing risk exposure is a key focus.

In response to this challenge, Interactive Data delivers valuations for a range of alternative instruments, including credit default swaps (CDS), interest rate swaps and bank loan prices¹. Interactive Data now also provides valuations of highly complex OTC derivatives and structured products as part of its wide-ranging pricing and evaluation services through an exclusive agreement with Prism Valuation. Prism Valuation – whose philosophy to valuation is built on three pillars ‘people-data-models’ – provides services that replicate the pricing and risk analysis capabilities of a structured products dealer, with an emphasis on hard-to-value assets.

This structured products valuation service is capable of providing valuations for most flavours of OTC derivatives and complex securities, while new structures are continually being added. Transparency and standards are fundamental to the valuation process. An important feature of the structured products valuation service is an innovative Valuation Transparency Report, in which the valuation process for even the most complex structures is illuminated in plain language. This includes the choice of underlying market data, appropriate model selection and calibration strategies culminating in a valuation. Clients also need to better understand what factors can cause a difference in valuation, and a further value-added analysis that can be provided is a detailed Valuation Discrepancy Report.

In the midst of focusing on managing risk and growing their business, firms must follow processes to help ensure that they remain compliant with regulations. The Markets in Financial Instruments Directive (MiFID), designed to broaden and strengthen the regulation of financial markets in Europe and help ensure market transparency, has posed a series of challenges for financial institutions. Interactive Data’s real-time and reference data services can help clients with the requirements of pre- and post-trade transparency, evidencing best execution, trade venue selection and reviews of order execution policy, code of conduct and client classification obligations, transaction reporting, managing conflicts of interest and managing risk.

Another main focus for institutions during 2008 was the Financial Accounting Standards Board’s Statement of Financial Accounting Standards No. 157, or FAS 157. This statement has resulted in firms reviewing their existing valuation policies and practices, and having to develop procedures for fair value disclosures in their financial statements. To help clients prepare for FAS 157, Interactive Data has developed a set of informational resources that disclose the types of inputs by asset class that are utilised to prepare evaluations. Interactive Data believes that this enhanced transparency can provide clients with information to establish their own fair value hierarchy determinations as required under FAS 157.

Regulation and other mandates will continue to be a main driver for the financial industry. By working closely with clients to understand their workflow, Interactive Data is better able to address market data and information needs and develop services that can help clients more efficiently comply with regulatory requirements – and be prepared for continuous innovation and change.

For further information please contact Bob Cumberbatch.
robert.cumberbatch@interactivedata.com

Interactive Data Corporation (NYSE: IDC) is a leading global provider of financial market data, analytics and related services to financial institutions, active traders and individual

¹ Valuations for CDS and bank loans are provided by Markit Group Ltd.

investors. The Company's businesses supply real-time market data, time-sensitive pricing, evaluations and reference data for millions of securities traded around the world, including hard-to-value instruments. Many of the world's best-known financial service and software companies subscribe to the Company's services in support of their trading, analysis, portfolio management and valuation activities.

www.interactivedata.com

This article is provided for information purposes only. Nothing herein should be construed as legal or other professional advice or be relied upon as such.

This article is provided for information purposes only. Nothing herein should be construed as legal or other professional advice or be relied upon as such.

Interactive DataSM and the Interactive Data logo are service marks of Interactive Data Corporation.

