Embracing Automation and Collaboration Tools to Inject Reference Data into the Trade Lifecycle

commissioned by

EUROMONEY
TRADEDATA

Introduction

Ongoing digital transformation in the financial services industry is forcing a rethink in the ways financial institutions access the data they need to support their trading and investment activities.

As they seek to address client demands for the agility required to enter new markets and realise new opportunities, financial institutions need flexible access to the appropriate reference and administrative data to ensure workflows can proceed without interruption. At the same time, traditional supplier commercial models - often in the form of 'one-size-fits-all' bulk data licensing agreements - are likely to become less fit for purpose as firms seek more flexible access to data.

These bulk data distribution arrangements may suit the very largest sell-side institutions, which need to support multiple asset management clients with a broad and varied array of data requirements. But for everyone else - from large Tier 2 sell sides to the smallest hedge funds - this approach is costly and lacks the flexibility to allow firms to pick and choose the data they need to meet their needs. They just don't need access to everything.

> "Increasingly, firms are looking to new models to adapt their consumption of critical reference data ."

Increasingly, firms are looking to new models - both commercial and technological - to adapt their consumption of critical reference data and remain nimble enough to support their customers as they modify their mix of activities to seek out new opportunities.

What's emerging is a new set of delivery mechanisms based on automated processing by reference data applications and bots that allow firms to inject reference data at key points in the trading and investment workflow, supported by widely used collaboration tools. These new delivery channels are necessitating new, more scalable commercial models that allow firms to add on-demand elements to their overall data licensing agreements, giving them the flexibility they need to respond to client requests without breaking the proverbial bank.

The need for reference data in the trade lifecycle

Reference data plays a critical role in supporting various functions and systems through the lifecycle of a trade. Although these functions may vary by firm, all institutions need accurate and timely descriptive and identification data to ensure they are dealing with the correct instrument, client or counterparty. Without comprehensive reference data, firms risk breaks in trading workflows, requiring expensive reconciliations and potentially damaging client relationships.

Reference data is critical to financial institutions' ability to respond to client requests for information about new opportunities. This may relate to new products a client wishes to invest in, or new markets it wishes to participate in. In either case, clients need appropriate security or entity identifiers, ownership information, regulatory data and trading rules. All of these data points are critical to maintaining the trading workflow, and failure to access the right data at the right point in that cycle risks potentially expensive disruption.

With reference data touching most points of the trading workflow across all asset classes globally, data suppliers have traditionally settled on a commercial delivery model that provides for bulk download of entire data sets for a standard fee. This has emerged as the default pricing model for most of the major suppliers, although the arrangement is not optimal for all data consumers.

The depth and breadth of data required by a financial institution depends on the range of activities conducted - by itself and by its clients. For its own activities, any firm will have a clear view of what data is required. It's more difficult, however, to predict what activities clients may undertake and by extension which data sets they will need to support those activities.

"...the more clients an institution needs to service the greater the requirement for reference data."

Clearly, the more clients an institution needs to service - and the more complex the activities of those clients - the greater the requirement for reference data. For large sell-side firms supporting multiple large investment management clients, the likelihood is that the reference data requirements is substantial.

For many of these firms, standard bulk delivery of reference data is an acceptable methodology for consuming the reference data they need to support their wide-ranging activities. The comprehensiveness of these bulk delivery arrangements with commercial suppliers allows firms to cater to the superset of needs of their multiple clients.

Reference data challenges for SME firms

Standard bulk distribution and pricing, however, is far from ideal for many Tier 2 and smaller financial institutions, which typically don't have the same scope of trading activity or clients as Tier 1s and often have more specialised clients with more targeted interests. These firms may specialise in servicing clients operating within a specific type of product group or asset class, or with activities in specific geographic markets. As a result, their immediate list of securities of interest (SOIs) is typically shorter and the value of their order books is typically lower.

Smaller firms often struggle to deal with data suppliers' commercial models, which are frequently geared toward bulk download of large reference data sets, which doesn't fit with Tier 2s' and Tier 3s' more focused approach. SME financial institutions can find themselves paying for data they don't need, given the one-size-fits-all characteristics for many major data suppliers' distribution agreements.

Furthermore, ingesting huge bulk files of reference data usually requires the firm to implement some kind of data repository. This could take the form of a commercial vendor-supplied enterprise data management (EDM) platform that receives reference and pricing data from multiple external sources that need to be validated and normalized, and then distributed to downstream applications like transaction and regulatory reporting mechanisms, and customer onboarding and client lifecycle management (CLM) systems.

On top of this, regulatory data needs to be applied to ensure compliance with all applicable rules within all relevant jurisdictions. This requirement can add a substantial overhead, particularly for firms with more specialist requirements, many of which are already burdened with the same major data and technological overheads faced by their larger competitors.

In all, this represents a significant overhead in terms of people, process, data and technology. SMEs may be forgiven for feeling like they are inhabiting the 'squeezed middle', facing similar overheads to their Tier 1 rivals despite a lower scale of activity and less financial clout to deal with high operational costs.

For SMEs, streamlined access to reference data is one area where they can seek to reduce this overhead. Here, the question is: 'Can they license only the data they need to cover their SOIs?'

Innovative firms in this segment are exploring alternative supply arrangements that give them more flexibility commercially while ensuring they are able to deliver reference data appropriate for all aspects of the trade lifecycle - ranging from pre-trade to post-trade - to the right point in the workflow at the right time.

Reference data workflow automation and the role of collaboration tools

For this to happen, firms need to have in place both the appropriate commercial arrangements with their data providers and some form of automation that ensures data delivery is properly orchestrated with the requirements of consuming systems and processes.

In terms of licensing arrangements, a hybrid solution may give firms the flexibility they need. For many, a kind of 80/20 rule may apply, wherein they contract with their suppliers for 80% of their data needs via bulk delivery agreement, while accessing the remainder as and when they need it - essentially subscription on an 'on demand' or 'pay as you go' (PAYG) basis.

Migrating to the commercial arrangements required to facilitate this may present a challenge - not least because they need to take into account existing bulk data subscription agreements with their suppliers. It's also important to consider that a true PAYG arrangement may not suit everyone. Firms that need a clear view of their future (fixed) data costs for planning or budgetary reasons may not find PAYG suitable.

As well as addressing their commercial arrangements, firms seeking to introduce more flexible ways of consuming reference data also need to review their internal systems for receiving data services. Existing reference data platforms often require interventions where there are errors in the data that generate exceptions requiring human attention.

Here, emerging processes like robotic process automation (RPA) and artificial intelligence (AI) can help firms improve straight-through-processing (STP) rates and more broadly streamline post-trade processes. The near-ubiquitous availability of reference data files via API is enabling the use of these technologies, which can go some way toward automating heretofore unreliable manual processes.

> "...emerging processes like robotic process automation (RPA) and artificial intelligence (AI) can help firms improve straight-through-processing (STP) rates and more broadly streamline post-trade processes."

Indeed, a recent survey commissioned by Euromoney TRADEDATA found that up to 41% of Tier 1 banks are today using chatbots or some other type of RPA in their post-trade processes. And while uptake rates are lower among Tier 2 and Tier 3 firms, one-third of the smaller financial firms surveyed said they were using these new technologies to support their STP workflow.

In these instances, chatbots and other 'intelligent' apps are being used in conjunction with supplier APIs to ingest reference data into trade workflows and deal with a significant portion of exceptions without human intervention. Under this kind of set-up, bots can be used to solve data issues automatically, drawing on AI and machine learning to anticipate potential problems and bottlenecks in the trade automation workflow.

To complement the work of the bots, human analysts increasingly are turning to workflow and collaboration tools to interact in an efficient way to resolve disruption to trade flows. Increasingly, the wide range of collaboration tools and business applications used by many financial institutions is being co-opted to provide dynamic support to solve and resolve transaction lifecycle issues that disrupt automated trade flow. Collaboration tools like Slack, MS Teams and Symphony are emerging as viable conduits for distribution of reference and regulatory data to support the resolution of disruptions to trading and transactions in the pre- and post-trade process.

Using these workflow tools, human analysts can provide 'last mile' after bots have solved the majority of data issues automatically, surgically delivering missing data sets and fixing data errors at the appropriate juncture in the trade lifecycle. For example, business analysts could use bots deployed in Slack to populate tables or grids of reference data needed to address trade breaks or exceptions due to incorrect data.

More broadly, desktop integration tools like OpenFin and common spreadsheet applications like MS Excel may offer direct routes to get important reference data to end-consumers without the need for major human intervention or indeed the kind of process and technology overhead usually associated with reference data integration.

Taking this kind of approach can allow business analysts to deploy collaboration tools to facilitate and support on-demand access to important reference data sets, supporting the 80/20 model where clients need it. This in turn makes on-demand reference data more feasible, offering the potential for small and medium-sized financial institutions to reduce the overhead posed by the data ingestion and distribution process.

Call to Action: Introducing Euromoney TRADEDATA's workflow tools

To assist firms seeking to inject reference data at critical junctures in the trade workflow, and to exchange crucial information with colleagues and counterparties using industry-accepted collaboration tools, Euromoney TRADEDATA has launched a suite of bots and apps as well as an API to work with select partners.

Through this initiative, Euromoney TRADEDATA has made it possible for clients to share its futures and options reference data with internal and external operators through the widely used Slack and MS Teams collaboration tools. Customers can also opt to consume Euromoney TRADEDATA services via API and manipulate, reconcile and process the data in their spreadsheets using the Excel add-in.

Euromoney TRADEDATA has also partnered with Symphony messaging and collaboration network for financial markets, making it possible for Symphony users to exchange Euromoney TRADEDATA reference data in chat to address issues in the trading workflow.

Finally, the company has added its data to the OpenFin financial desktop integration platform. This enables them to apply Euromoney TRADEDATA information to multiple application instances running in the OpenFin environment, allowing them to, for example, check an unfamiliar symbol received from a client to determine what the contract is and what exchange it is listed on, finding out what time a commodity futures contract trading session ends on the last trade date to make the determination in advance, whether to roll over to a longer dated contract month or to take delivery or, look up an ISIN for a trade break from a rejected MiFID transaction report.

Key to Euromoney TRADEDATA's ability to integrate its data services to these applications and platforms has been the introduction of new commercial models designed to support the flexibility of on-demand data services. Combined, these initiatives allow Euromoney TRADEDATA to supplement these third-party platforms and workflow tools.

To date, Euromoney TRADEDATA has launched ready-to-go apps and bots capable of handling its futures and options reference data, with plans in place to expand this coverage into other asset classes. In addition, the company is expanding its partnership program to include independent service vendors (ISVs) offering solutions to front, middle and back office trading, and has launched a set of personal workflow solutions to create a suite of products and services aimed at both Tier 2 and Tier 3 financial institutions, together with a data bot branded as Tada!

For more information on Tada! and Euromoney TRADEDATA's reference data workflow solutions, please visit www.euromoneytradedata.com or contact us at sales@euromoneytradedata.com.

About Euromoney TRADEDATA

Euromoney TRADEDATA provides an aggregation service for the global exchange traded derivatives. Recognised as the specialists and innovators in the futures and options market, we are now aiming to become innovators in other asset markets. The up to date market data we provide is essential for accurate and timely settlement of trades without the additional overheads of collating, validating and maintaining in-house data.

We pride ourselves in being able to offer highly customised data feeds to integrate with any client application whether proprietary or vendor based.

We supply instrument data for over 85,000 contracts on over 100 exchanges and are the reference data solution of choice for the world's top tier financial organisations, exchanges and regulators.

For more information about Euromoney TRADEDATA and our solutions visit: www.euromoneytradedata.com.

Euromoney TRADEDATA Central is designed to service the multiple needs of modern trading systems, from pre-trade risk, through post-trade automation, to regulatory compliance and to easily integrate within the cross-platform technology ecosystem and workflows that surround them.

Find out more at : https://www.euromoneytradedata.com/tradedata-central

ABOUT A-TEAM GROUP

A-Team Group helps financial technology vendors and consultants – large and small – to grow their businesses with content marketing. We leverage our deep industry knowledge, ability to generate high quality media across digital, print and live platforms, and our industry-leading database of contacts to deliver results for our clients. For more information visit www.a-teamgroup.com

A-Team Group's content platform is A-Team Insight, encompassing our RegTech Insight, Data Management Insight and TradingTech Insight channels.

A-Team Insight is your single destination for in-depth knowledge and resources across all aspects of regulation, enterprise data management and trading technology in financial markets. It brings together our expertise across our well-established brands, it includes:

RegTech Insight focuses on how data, technology and processes at financial institutions are impacted by regulations. www.regtechinsight.com

Data Management Insight delivers insight into how financial institutions are working to best manage data quality across the enterprise. www.datamanagementinsight.com

TradingTech Insight keeps you up to speed with the dynamic world of front office trading technology and market data. www.tradingtechinsight.com

You can tailor your experience by filtering our content based on the topics you are specifically interested in, across our range of blogs with expert opinions from our editors, in-depth white papers, supplements and handbooks, and interactive webinars, and you can join us in person at our range of A-Team Summits and briefings. Visit www.a-teaminsight.com

Become an A-Team Insight member – it's free!
Visit: www.a-teaminsight.com/membership.