



# Achieving Transparency Through Standards:

## Road to Global Harmonization or Bulldozing the Playing Field?

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# Agenda

- What standards initiatives will impact the securities industry in the coming 1–3 years?
- What does the securities industry need to do to respond to the global proposals?
- How can technology be leveraged by institutions to meet the new requirements, and how can vendors take a leadership role?

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# Key Findings

- The most important global standards initiatives for the securities industry — IFRS, XBRL and XML for Money Market reporting — will demand investment by financial services institutions and technology and service providers.
- The life cycle of standards initiatives will be accelerated 50% by current requirements for investor transparency.
- The lack of specific business requirements has contributed to the failure of standards.
- TowerGroup expects that technology providers will play a key role in helping the financial services industry to achieve standards compliance.



# Top Business Drivers, Strategic Responses And IT Initiatives for Buy-Side Firms in 2010

## Business Drivers Across Industry

1. Ongoing margin pressure due to lower fees	2. Loss of investor faith and confidence in investment firms	3. Demand for greater transparency and disclosure	4. Pressure to better manage risk and demonstrate it	5. Changes in global regulation, cross-border harmonization
6. Quest to generate investment returns (search for alpha)	7. Pressure to maintain actively managed assets	8. Impact of the blockbuster BGI/BlackRock deal	9. Changing market structure/regulation in trade execution	10. Impact of hedge funds rising again

## Strategic Responses of Individual Firms

Consider M&A for firm's goals, and due to industry changes	Improve manage portfolio risk and liquidity	Take advantage of growing wealth in foreign markets	Improve data management enterprise-wide	Renew interest in business process outsourcing?
Reevaluate product offerings amid industry change	Gain better control over counterparty exposure	Optimize IT and operational efficiency to reduce costs	Adjust relationships with service providers due to industry shifts	Improve IT, operations, and corporate governance

## Important Technology Priorities and Initiatives

Improve risk applications and infrastructure	IT/operations projects in direct response to new regulations (TBD)	Enhance client, internal, & regulatory reporting systems	Invest in global tech projects, and expand operations overseas	Identify IT applications ripe for ASP service and delivery
Master data management	Automate remaining manual and paper processes	Renew/retool trading applications and infrastructure	Retool for global standards initiatives	Rework operations & processes for cost, risk, & strategic goals

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# The Quest for Coexistence of Standards Is Elusive and Chaotic



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# The Standards Road Map for Transactions

Source: TowerGroup

Pretrade/ Trade	Processing/ Settlement	Accounting/ Reporting	Asset Servicing
Indications of Interest  Trade Orders and Fills  Market Data	Trade Notifications  Failed Trade Monitoring  Fund Transactions	Client Statements  SEC Filings  Reconciliation  Pricing	Corporate Actions  Proxy Voting  Collateral Mgmt.  Securities Lending  Fee Billing
FIX Protocol ISO TWIST MDDL	ISO FpML	GIPS IFRS XBRL ISO/FpML	XBRL ISO FpML

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# Top 5 Reasons That Firms Should Care About Standards

Reason for Adopting Standard	Why Firms Should Care	Examples
Reduce trade processing costs	Helps firms commoditize the trade process and limit manual intervention	<ul style="list-style-type: none"> <li>Automation of the trade life cycle using FIX, ISO, FpML</li> </ul>
Comply with regulatory and industry mandates	Firms have no option but to comply with regulatory requirements and industry mandates	<ul style="list-style-type: none"> <li>XBRL for financial reporting in the United States, Europe, and Asia</li> </ul>
Mitigate operational risk exposure	The use of standardized data elements allows for the automation of manual processes such as trade processing or reconciliation	<ul style="list-style-type: none"> <li>ISO for securities trades</li> <li>FpML for derivatives and bank loans</li> </ul>
Improve client services and reporting	Adoption of standards enhances investor transparency and can provide differentiation from competitors	<ul style="list-style-type: none"> <li>Global Investment Performance Standards (GIPS)</li> </ul>
Increase cross-border communication	Use of standards promotes the uniform communication of trades or financial information across regions	<ul style="list-style-type: none"> <li>ISO for Investment Funds</li> <li>XBRL for SEC filings</li> <li>IFRS (future)</li> </ul>

Source: TowerGroup

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# Standards Initiatives Don't Always Provide Clarity

- ISO 15022
- International Business Entity Identifier (IBEI)
- Investment Research Markup Language (IRML)



**What make a standards initiative succeed or fail?**

**What are the lessons to build on?**

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**What standards initiatives will impact the securities industry in the coming 1–3 years?**

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# Standards on the Horizon

- There are three to focus on:



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# Still More to Come: Be Ready

- Total Portfolio Valuation (TPV) statement
- Collateral management standards
- Hedge fund reporting templates: IOSCO
- ISO 20022





# **What does the securities industry need to do to respond to the global proposals?**

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# Adoption of Standards Takes Effort

Financial services firms must:

- Assess costs and benefits
- Evaluate legacy systems
- Conduct training in new technologies and languages
- Enlist help from vendors
- Get involved in working groups



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# Top Opportunities for Vendors with Regard to Standards

Assist institutions in adapting internal applications, enabling them to “speak the standards”

Offer institutions connectivity to utilities that consume standards

Prove readiness to process ISO 20022 MX messages

Provide “fair valuation” of complex securities

Support multiple accounting “books” such as local GAAP and IFRS

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# Conclusions

- Financial services institutions need to be cognizant not just of regulatory initiatives but also of the technology to support any standards that may arise.
- Institutions must assess the capabilities of their current and prospective technology providers to comply with future standards such as IFRS, XBRL and XML reporting for money market funds.
- Vendors must participate in standards initiatives and working groups so they can proactively connect with potential customers.
- To achieve maximum benefits, standards initiatives ultimately must include input on business requirements from all players — so get involved!

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