

Leveraging Reference Data For a Holistic Approach to Risk Management



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As many of us know, managing reference data was not always viewed as a major corporate priority. It was often looked at as data processing and record keeping, not an essential component of a risk management strategy for a multi-national financial institution. But recent events, from

risk parameters of that instrument. With accurate and consistent reference data, an institution is better positioned to conduct the kinds of analyses which are critical to understanding risk.

At another level, financial institutions want to understand the concentration and exposure they have to various seg-

menting challenges. For example, they could identify that exposure to the auto industry makes up too large a percentage of their portfolio, and then make an informed financial decision to address this issue.

Reference data providers can offer clients detailed entity linkage information that connects families of securities and helps institutions understand the relationships of the securities to the corporate family structure.

This information is critical to maintaining compliance with regulations that require institutions to understand their exposure to a given firm, industry or market sector.

At yet another level, it is also imperative to have a comprehensive understanding of the underlying elements of a financial instrument. Over the past several months, the news has been filled with stories about organizations that didn't take these steps, and have been impacted by the far reaching tentacles of subprime securities.

Little did we know that it wasn't just financial institutions that were invested

Only by optimizing reference data management and having an indepth knowledge of millions of instruments can a firm take a holistic approach to effectively managing risk

the volatility of the global financial markets to the subprime crisis, have put a spotlight on risk management and the essential reference data supporting this process.

The fact is, that only by optimizing reference data management, and thus having an in-depth knowledge of the millions of instruments flowing through its systems, can an institution take a holistic approach to effectively managing risk. Critical to this approach is the ability to take a 360° view of each financial instrument held by an institution.

Let's begin with the financial instruments themselves. Institutions want to understand the behavioral characteristics of each financial instrument, both on a stand-alone basis and within the context of the portfolio, under a variety of market scenarios. Determining how an instrument is going to behave under stress is essential to understanding the

ments of the market. This might include credit exposure and industry segment exposure, among others. Gaining this understanding requires knowledge of the full "family tree" of a financial instrument. For example, if an institution owns shares in a certain company, they may not realize that it is a far-flung subsidiary of a major auto company going through financial difficulties that could impact their holdings.

Financial institutions want to understand the concentration and exposure they have to various segments of the market, including credit exposure

With reference data, an institution could have a better understanding of their "concentration risk" in a certain sector or among organizations that are

in structured securities, such as CDOs, that had exposure to subprime loans. In recent months, entities from government organizations to pharmaceutical

companies have disclosed losses due to subprime-related issues.

Effectively managing and reviewing reference data can help investors understand the underlying dynamics of a security and help them determine their risk exposure. For example, even though a security may have a 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.

With consistent, timely and accurate reference data, institutions can gain additional transparency into these details.

By prioritizing 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. With this essential reference data, institutions can realize a competitive advantage by making more informed investment decisions that can help them expand their business despite the complexity and volatility of today's dynamic global financial markets.

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