



The SmartStream RDU framework
Source: SmartStream

Utility, heartfelt

So here is a major headache for the treasury and capital markets industry: the cost line remains dead flat but the revenue line has dropped off the cliff. Utility is the answer to the market woes, strongly believes *Philippe Chambadal*, CEO of SmartStream Technologies.

As with most of the industry, the capital markets sector has been in considerable flux in the last few years, in terms of market drivers, new operational models and supplier consolidation. If there is a single buzzword then it is probably “utility” – which for those in the industry with long memories probably evokes a sense of déjà vu.

This time it is cost pressures that are meant to be the driver for such a shift and, certainly, several suppliers have been adjusting and componentising their offerings in the expectation that the current discussions will lead to actual decisions.

Rationalisation of systems, external and internal utilities, and better use of data are the flavour of the day. “There is a need to mutualise to remain profitable – and that means creating shared services for the industry,” states Chambadal.

SmartStream is not just talking the talk, but walks the walk: last year, the SmartStream Reference Data Utility (RDU) went in partnership with three top-tier banks: Goldman Sachs, JP Morgan Chase and Morgan Stanley.

The solution – known as Securities Product Reference Data (SPReD) – provides services for instrument reference data normalisation, enrichment and validation across all asset classes.

The three founding banks have also pledged to become clients of SPReD, which Chambadal feels is a ringing endorsement for the offering and a clear indication of the appetite for utility-type services.

Indeed, at the launch of the utility, Julie Harris, Goldman Sachs’ managing director in charge of operations data quality management, stated: “We believe this solution presents great value for our organisation and the broader industry”.

James Trait, managing director at JP Morgan Chase, described the utility as “a great example of how our industry can partner to improve effectiveness and reduce costs”.

His counterpart at Morgan Stanley, Eric Suss, managing director and head of institutional reference data, commented that “working together to ensure high-quality reference data is in everyone’s best interest”.

SPReD offers a multi-tenanted, auditable environment for data collection, cleansing, and change management based on customised integration standards to generate a flexible, bespoke golden copy.

The cost of repairing trade breaks is minimised and so is operational risk. The direct data management costs are reigned in too, whilst the service quality of reference data management is improved.

“Banks are running multiple applications, and in the case of large groups that have grown via mergers and acquisitions the software set-up consists of hundreds of systems,” Chambadal comments.

Furthermore, each bank and system have their own way of pulling data from the market, processing and presenting it – and the result is expensive and convoluted irregularities across the data value chain. Let alone trade breaks that come with hefty repair costs and reputation damage.

But can any financial institution today really justify a business case to reinvest in legacy technology and infrastructure, when – most likely – previous investments had not resolved common market issues present in their data?

And what is the point of trying to create the best data set in the world within your institution if you still have to interact and exchange it with the rest of the industry that is far from perfect, asks Chambadal. There are plenty examples of failed Golden Copy projects – when instead of focusing on successfully integrating the data that is timely and high quality, all its efforts were directed on getting data

inside the firm, when most data issues reside between a firm and all their counterparties.

The utility offered by SmartStream delivers a data service “to realise the truth of the data contained within the industry with guaranteed results”.

It offers to manage data holistically, across legal entity, security, instrument, corporate action and pricing data. The model promotes common fixes to data processing across the instrument lifecycle and the events that originate and change data.

The RDU becomes a processing agent: it manages a complete lifecycle of data, from incorporating the sourcing and validation, to enrichment and cross-referencing.

Cleansing best practices are applied, which benefits all participants due to the mutual nature of the utility. Chambadal muses that there is an opportunity to offer a service to other solutions suppliers to assist with their data related issues.

“We guarantee through an SLA that the data is fit-for-purpose and consistent,” Chambadal states.

Participant’s data governance policies are enabled across all financial markets and asset types through streamlined mechanisms for data consumption from one multi-tenanted, auditable environment.



Philippe Chambadal,
 SmartStream Technologies

Customised integration standards and controls are fully supported, assures SmartStream.

The process is supported by a global team that operates under the compliance frameworks of the client base.

It operates 24x7 from centres in New York, London, Bristol, San Jose, Mumbai and Bangalore.

The utility boasts global coverage of listed equities, derivatives, fixed

income and structured products – “a universe of more than 20 million securities”.

The onboarding process can take from three to four months for a smaller firm and up to around nine months for a large one, says Chambadal. In terms of tangible benefits to users, they can save at least 30-40% of their direct operational costs of data management systems.

Impressive, but not as impressive as the promised cost savings when it comes to repairing trade breaks due to reference mismatches – up to 90%.

Let’s face it – reference data management costs institutions huge sums of money and it is essential, of course, but in terms of business differentiation it brings nothing to the table. But it does need to be constantly maintained – it can become out of sync and out of date in a blink of an eye.

So what has a firm got to lose by taking the utility route? “Absolutely nothing”, as far as Chambadal is concerned, and yet there is often resistance from the in-house teams, he feels. “Our main competitors in this space are the in-house developments,” he comments. A lot of firms have already invested heavily in data management projects, so the opposition is quite understandable. However, Chambadal points out that no in-house development can possibly be as all-encompassing and cost-effective as a dedicated utility – and that is difficult to dispute no matter how much you love your home-grown solution.

“The future is in utility,” he concludes. SmartStream has more solutions in its portfolio that can be successfully converted into a utility model. There is, for instance, a collateral management solution purchased from IBM last year. The product – which stems from Algorithmics (acquired by IBM in 2011) and is now known as TLM Collateral Management – it has now received a new lease of life with the arrival of a more focused owner.

Watch this space. **BT**

HOW DID IT ALL COME ABOUT

Whilst the SPReD entity is new, the RDU itself is not. SmartStream has been running the service for five years in full production, states Chambadal. The vision of an industry-wide utility has been that of Chambadal for many years – and it has finally come to fruition.

He adds that it took a while for the founding banks of SPReD to decide in favour of SmartStream as their strategic partner. The consortium examined seven proposals from different companies.

So what made SmartStream stand out?

Chambadal names key differentiators:

- Single-source cleansing processes. “This is a legal requirement and we are the only ones to comply with it fully.”
- Multi-tenancy. “We are the only provider of genuine multi-tenancy architecture of the system.”
- High scalability. Goldman Sachs, JPMorgan Chase and Morgan Stanley are going to be using the solution – need we say more?
- Proven track record (as mentioned earlier, RDU has been in operation for five years).
- Complete market coverage.
- Full auditing capabilities.
- Full guarantee of data accuracy, enrichment and timeliness.