

How Risk and Regulation are Changing the Financial Markets IT Landscape

Buy Side and Sell Side are Experiencing Similar Pain With Regards to Document Management, Says Markit

Given the increased market focus on counterparty risk this year, firms are now beginning to spend more on the efficient management of their documentation processes, according to a recent survey by Markit. Good news then, for the vendor, which launched its Markit Document Exchange service in May last year. Penny Davenport, managing director and head of Markit Document Exchange, elaborates on the survey and the division's plans for 2009.

"The focus of our clients this year is very much on risk and cost reduction and we are sensitive to their pain points. Our ownership helps us keep particularly close to the needs of the banking community," explains Davenport. "Markit was engaged in a survey before Christmas that looked at the requirements of our customers in the current market environment."

The survey results indicate that 54% of sell side respondents and 38% of buy side respondents believe operational efficiency to be the biggest challenge they face in the counterparty documentation and compliance area. This was closely followed for the sell side by the challenges of keeping up with changing regulations (at 44% of sell side respondents).

This focus on achieving operational efficiency and keeping risks in hand may go some way to explaining why Markit Document Exchange is confident that its service will receive more interest this year. "The current market environment has extended the sales cycle but it

has not had a negative impact on our business," says Davenport. "Firms seem to be evaluating more metrics around a solution and there is now a requirement for a more structured RFP. The economic boom focused on business growth but now firms are going back and looking at foundation level projects to get the basics right."

She puts the interest down to a number of events in the market, not least of which was the market crisis. "The fall of Lehman Brothers last year prompted a lot of firms to contact us about Document Exchange because it centralises the storage of vital documentation and provides greater timeliness when firms need access to that data fast. There is a real focus on counterparty risk in the market – firms need to understand which collateral agreements have been put in place and the impact on their collateral requirements," she elaborates.

Both the buy and the sell side are experiencing similar problems regarding the challenges of document collection, according to the results of the survey. "The survey indicated that both the buy side and the sell side are having similar problems in the current market with regards to document management and both are focused on the issue of timeliness. The sell side are finding it hard to locate KYC documents, whereas the buy side do not know to whom to provide this information," says Davenport.

According to the results, 35% of buy side respondents felt that identifying

the correct recipient of documents at sell side counterparties was their biggest challenge. While 52% of sell side participants cited receiving documentation in a timely manner was their biggest challenge. The sell side respondents also complained about document collection, with 40% suffering from large files blocking their inboxes, 39% receiving sub-standard files and 30% asking for a centralised system for documentation.

"A surprising finding from the survey was that the focus of the industry is on operational efficiency and not regulatory scrutiny," adds Davenport. "The respondents also, unsurprisingly, said cross border issues are ongoing."

The focus of the industry for 2009 seems to be on risk management, reference data and client data, adds Davenport; and this fits in with her division's offering nicely. The service acts as a centralised repository for documentation and automates KYC, anti-money laundering and compliance certification processes in order to reduce risk and lower operational costs.

"The next focus for Markit Document Exchange this year is to reach out to the large institutional asset management community, now that there are 25 sell side firms on board," she explains. "We already have good coverage in the hedge fund community. Another major client area will also be the third party service providers to the funds, including prime brokers, fund administrators and law firms. Multilateral trading

facilities are also on the radar. The objective is to replicate the document workflow for the industry but on a more streamlined basis."

The vendor is also busy working on product development with its formal design group in order to add new functionality to the offering. "We are far down the line of a project to get W8 and W9 tax forms online for the buy side and we are building software with an expert partner in this space. We are speaking to the US Inland Revenue

Service to define the requirements for online completion of these forms. This should be live in the fourth quarter of this year," adds Davenport.

"We are also working with Citi and Avox on the bank's management of its customer data. We are looking to normalise the data in this area and are engaged in a pilot programme in partnership with Avox to validate Citi's customer data," she continues. "We are currently working on phase two of the project and a deeper level of detail for this data at the account

level. There needs to be strong firewalls in this endeavour to make sure that there can be no data breaches."

The vendor will also be looking to develop similar partnerships in the future, on a "best of breed basis", according to Davenport.

For now, it seems that the vendor has plenty to be getting on with. New client pitches, vendor partnership discussions and product development should certainly keep Davenport and her team busy throughout 2009.