

# Information Strategies. Re-invented.

## IOSCO Financial Benchmark Principles & Impact on Data Sourcing & Market Data Vendors

### Background

IOSCO's has identified four core areas which its Financial Benchmark Principles will cover. These are:

1. Index Governance.
2. Benchmark Quality.
3. Methodology Quality.
4. Accountability.

Of these the first three are directly related to the data being used and the fourth is indirectly. This will impact the creation of benchmarks and their relationship with the Market Data vendors in terms of quality, and source, and in different ways depending on the type of benchmark.

### Public Data Benchmarks & Survey Based Benchmarks

For Public Data Benchmarks it will affect data sourcing, especially for less liquid instruments and over the counter instruments.

For Survey Based Benchmarks it will impact who creates them i.e. LIBOR, and how they are distributed.

### Why DataContent?

- ✓ We are independent.
- ✓ We have a proven 20 year track record with major global financial institutions.
- ✓ We employ best practise principles



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# DATA SOURCING FOR FINANCIAL BENCHMARKS

- **IOSCO Principles' impacts will flow backwards through the Market Data Food Chain.**
- Index Providers will require greater data integrity from vendors, or from data sources if taking the information direct.
- Vendors will in turn, require the same from data sources, but will view the data sources in different ways.
- There is likely to be ever more emphasis on Tradable prices and Observed Transactions than contributed prices.
- There will be a need to ensure evaluated pricing methodologies and standards are maintained and if necessary improved.
- **Key Elements to look for:**
- Greater transparency in, and the necessity to justify, data sourcing will lead to a requirement for a wider range of sources with deeper coverage.
- Index Providers could well have to state the data sources and vendors used to create indices.
- Indices based on exchange traded instruments are less likely to be impacted, except where a market supports multiple venues, for instance an equity market with an active OTC equity component which is OTC cleared.
- Less reliance on indicative pricing, increased emphasis on 'Observable Transactions' impact on OTC Market Pricing. This would have resource issues.
- The introduction of in-depth periodic reviews of existing data sources, i.e. A full not partial Qualification and Re-Qualification process becomes necessary.
- Increased focus on evaluated pricing and its quality.
- Self Sourcing and Chinese walls. See Slide 4.



# SELF SOURCING & CHINESE WALLS

- **IOSCO Principles' Forgotten Impact?**

- There are 3 basic groups of Index Providers, each being impacted in different ways.
- The Traditional Index Providers.
- These include FTSE, MSCI Russells, S&P Dow Jones, STOXX & Wilshire.
- They will be impacted by having to source more data externally and having to put more resources into ensuring data accuracy, timeliness, and consistency.

- **The Market Data Vendors with an Index Business**

- These include Bloomberg, Markit, and Thomson Reuters.
- They could well have to put in place Chinese Walls to be separate from the rest of the business.
- This then brings up the issue of internal sourcing of data, although as all data is originally external the emphasis is likely to be on methodology when sourcing data.

- **The Banks with Indices.**

- These include Barclays, Citi, Deutsche Bank, HSBC & JP Morgan.
- These are likely to be the most impacted due to internal sourcing and potential Chinese Walls.
- As these Banks source their data directly from their own internal front desks, it is likely to raise the most question markets regarding data quality and index creation methodology.
- It is likely Banks will find maintaining indices burdensome and exit the business.



# A QUESTION OF LIQUIDITY

- **IOSCO's Principles' require a higher 'duty of care' for data sourced from illiquid markets and instruments.**
- The most widely followed indices are naturally the most liquid, i.e. S&P500, FTSE1000, Nikkei 200.
- These indices are provided with timely, accurate, and consistent data.
- However specialist indices created for individual clients, benchmark minor markets, or infrequently traded asset classes relying on illiquid instruments pose a special challenge.
- Illiquid instruments and the options to price these instruments have far greater impact on an index.
- Permission from sources might be required, and some sources may not be aware their prices are being used to create financial benchmarks.
- **Key Points**
- Increases the emphasis on sourcing from multiple venues if available.
- i.e. if sourced from 1 evaluated pricing service now this will increase to having to source from 2 or 3 and having an approved methodology for selecting the best price data to use.
- i.e. if sourced from 1 Inter-Dealer Broker now this will increase to having to source from 2 or 3 and having an approved methodology for selecting the best price data to use.
- Data hierarchies have a more significant impact.
- Market Data vendors will need to seek out more sources.
- **The above can equally apply to sourcing data from liquid markets.**



# OTC CLEARING

- **IOSCO Principles and OTC Clearing?**

- OTC Clearing could well provide a source for the 'Observable Transactions' that are preferred by the regulators.
- However there will not be comprehensive coverage in terms of either instruments or geographic location.
- Also OTC Clearing is quite a way from being a mature source.

- **Key Points**

- OTC Clearers are only going to cover specific asset classes or be limited to a local market, i.e. Singapore Exchange's plans.
- The downside is OTC Clearing will in reality provide fragmented coverage at higher overall cost to the consumer due to the need to source from multiple venues to get a global view.
- IOSCO has accepted this by saying 'Observable Transactions and other data sources'.
- In the short term there will be Indicators of Interest (IOIs) and Tradable prices being used because there is no alternative.
- This gives an advantage to market data vendors able to achieve coverage of OTC Clearers and have broad access to Contributed and Tradable pricing.



# BUSINESS IMPACT FOR MARKET DATA VENDORS

- **IOSCO Principles' direct potential impacts for Market Data Vendors?**
- Exchange traded markets are well covered, so differentiation becomes critical in providing data to Index Providers, or any other value added product creator.
- Greater emphasis on Historic, End of Day, and Evaluated price data in terms of quality and methodology.
- There will be a distinct advantage in having the broadest and deepest data sets, especially for OTC Markets.
- Sourcing data from OTC Clearers is a priority as these will provide 'Observable transactions'.
- The importance of Inter-Dealer Broker data will grow, but only if prices are delivered more consistently for less liquid markets.
- However the IDBs will have to ensure data quality, and current reliance on internal pricing teams will result in questions regarding the IDB's own methodologies.
- As Index Providers need to justify their sources, vendors in turn will need to be more transparent in revealing sources, especially if Bank Contributed rates are used.
- In extremis audit trails of data being used within datasets and how they were sourced may be required.
- Association with Index Providers are good marketing tools for market data vendors.



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About [DataContent](#).

Rafah Hanna and Keiren Harris inaugurated [DataContent](#) as an innovative strategic consulting practice.

DataContent advises participants across all financial markets on how to effectively validate, change and profit from data resources, leverage information and market data benefiting their businesses direct to the bottom line.

Expert innovation is the key driver in approach and delivery, all built on continuously proven track records.

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