BRIDGING the Transparency Gap

Pricing vendors need to consider a more pro-active dynamic with their customers to provide more transparency into the due diligence process.

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End user firms want more transparency from their pricing vendors, according to a new survey sponsored by Thomson Reuters. Nearly half (45.8%) of the respondents cite as their biggest concern the level of transparency they have into the underlying information about the offerings of pricing vendors. (The concern about pricing vendors' coverage of securities held is a distant second at 20.8%.)

In fact, a clear evaluation process was cited as the top attribute of pricing vendors by 31.3% of survey respondents, which includes operations staff, pricing managers, treasurers and chief risk officers. Another key takeaway from the survey, conducted by FTF News, is that clients want greater transparency to ensure that they have data of the highest quality. When asked what the top three drivers are when assessing valuation and reference data providers, 75% of respondents named data quality, 47.9% pointed to risk management and 29.2% said cost cutting.

Jayme Fagas
Head of evaluated pricing, Thomson Reuters

Cultivating Transparency

The challenge, then, for pricing vendors is to bridge this transparency gap and soon. They will need to be sympathetic to the needs of their customers and this can be demonstrated via a more symbiotic relationship with clients.

Clients, on the other hand, must acknowledge that a great deal hinges upon due diligence meetings, and they should demand a far more interactive, multi-faceted process to match the depth and breadth of their assets under management (AUM). More than two-fifths, or 41.7% of respondents, which encompassed buy-side firms and those serving the buy side, have more than $10 billion in AUM; 6.3% have +$5 billion to $10 Billion in AUM; 16.7% have +$1 billion to $5 billion in AUM; and 10.4% have up to $1 billion in AUM.

Greater cooperation from pricing vendors could ease the due diligence burden especially as 20.8% of respondents have five or more pricing vendors; 12.5% have four suppliers; 10.4% have three vendors; 14.6% have two vendors and 12.5% have a single vendor.

"Pricing vendors need to do a better job proactively reaching out to their customers and pushing information to them rather than putting the onus on the client to pull down information," says Jayme Fagas, head of evaluated pricing, Thomson Reuters, in light of the survey results. "To address transparency, we at Thomson Reuters Evaluated Pricing see a new information sharing dynamic developing as part of the operational processes at our clients. Gone are the days of 'black box' proprietary model development and processing."

Rather than black boxes and waiting for customers to pull their resources together for a due diligence face-off, vendors should consider more client visits and more lines of communication to share key information about their offerings. Customers will also benefit from enhanced lines of communication especially if they let vendors better understand their situations and needs. Cultivating transparency between customers and the direct contacts at the suppliers will lead to more effective due diligence encounters. It could also ease some major concerns on the minds of key decision makers at customer sites.

A New Alignment

Given the desire for more transparency, the usual participants in a due diligence visit with a vendor — chief compliance officers (CCOs), operations managers, pricing managers and treasurers — are likely to welcome more vendor visits that bring clarity to the due diligence dialogue. Some may even start to take checklists seriously as 33% of survey respondents say that they do not yet have them.

For the CCOs and pricing departments that do put together checklists, they are likely to be open to getting relevant product information and guidance from their pricing vendors. In addition to data quality, risk management and cost concerns, clients are also looking for ways to meet documentation support requirements (25%) as the FTF News survey shows.

To say the least, these are complex areas that could benefit from more interaction between supplier and client. The greater and more in-depth interaction could easily lead to more satisfying results for both sides because it allows for more opportunities to resolve issues than if supplier and client only interact in an annual or a bi-annual due diligence meeting.

"For example, if our customers can't back into the inputs and methodologies we use to price securities, then we have not done our job," Fagas says.

Customers also have to do their part in this new dynamic if they want a clearer view into what their data providers are offering. The easiest place to start is with the questionnaires they fill out for their data suppliers. It's often to the benefit of the clients that they be as comprehensive as possible in completing the questionnaires about their needs.

Customers can also do more to deepen their due diligence meetings such as asking their data suppliers to let them speak with:

- **The asset class leaders with market knowledge;**
- **The IT managers to assess risk in the operational side of the valuation business, particularly for data capture and data delivery;**
- **The senior executives to get updates on new initiatives; and**
- **Compliance officers to evaluate internal controls**

If approached pro-actively, both sides can benefit from the greater interaction and increase the likelihood that there can be a much stronger alignment between vendor contacts and the interested stakeholders at client sites. The rewards for this more constructive approach could be many. The greater interaction could feed a knowledge base that could serve as the start of a de facto set of best practices that can be shared among clients.

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