



Fixing the Infrastructure of Finance

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In Elizabeth Lumley's Blog on Jan 6th "Fix the Infrastructure of Finance or Die" she compares the broken rail system to similarities in the infrastructure of finance.

To follow the railroad analogy, if you can imagine a global rail system with different track widths, that is what we have now in the bedrock of the global financial system.

But good news, the fundamental reengineering of the “rail system” for finance is, in fact, being put in place right now. It is manifest in a new identification scheme for financial supply-chain participants and the instruments and contracts they trade, own, process and custody.

These universal, unique and unambiguous identifiers, and standard tags that identify common data elements in a financial transaction, are being defined and implemented in the newly regulated global swaps markets. Regulators expect to extend the system from swaps markets to all financial market participants in all financial markets. It is a halting experience, taking two steps back to go one step forward, but, nevertheless, it is marching forward.

The identity codes - the LEI-Legal Entity Identifier, the UPI – Unique Product Identifier, and the UTI – Unique Transaction identifier, are the equivalent of the codes found in commercial barcodes. Standard XML data tags, like the bars of barcodes on physical items, are being defined as well. These will allow computers to read standard components of digitized financial transactions such as standard identity codes and data elements.

Standardizing data is necessary to the fundamental rebuild of the infrastructure of finance. Getting the baseline pillars of global identification is the first step. Thereafter, modern federated utilities operating as peer-to-peer ledgers of record (yes even the Blockchain enabled ones as they come of age) can evolve to replace centralized data warehouses operated by financial market infrastructure utilities.

With standardization on the front burner, the decades-old legacy interoperability models of proprietary data bases run by existing financial market utilities, supported by costly and risk prone data mapping, will succumb to less costly federated models. Like with our instantaneous view of specific data from the millions of data bases on the Internet, FinTech innovation will enable virtual global views of financial data that is disbursed at local sources or collection points across the globe...as long as they conform to common data standards and networking protocols.

We cannot leapfrog standardization – we must do the hard work first to enable the new technologies to evolve. With data standards in place a real-time straight-through-processing world is possible for finance. The question that remains will be whether infrastructure utilities will then be able to retool their trains quickly enough to ride on the new rails?