

The Money Management Institute

SMA Communications Standardization



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Industry Solution Recommendation Executive Summary

April 12, 2006

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Executive Summary

In December 2005, MMI asked Accenture to (i) assist MMI in developing a program for the separately managed accounts industry (“Industry”) adoption of proposed data standards for communication among Industry participants and (ii) examine aspects of the alternative communication methods available and the entities that may be utilized as a partner to connect the Industry participants.

This document presents the Accenture recommendation and the key information supporting the recommendation including historical context, industry participant interview findings, industry analysis, and solution rationale.

Key Findings

A number of significant issues are impacting the industry’s ability to successfully standardize data communications:

- **Firm-specific challenges of industry participants continue to dominate** the attention of decision-makers instead of industry-level concerns.
- There is general consensus on the expected long-term benefits of industry-wide communication standardization; however, a **lack of clarity around the short-term cost/benefit** results in reduced prioritization at the firm level.
- Sizable competitive advantage exists within the industry resulting in the support levels of a few **key participant firms heavily influencing the industry’s ability** to implement a standardization initiative.
- **Existing connectivity between participants** represents a significant hurdle to industry participants and, inherently the industry at large, for achieving standardization.
- There is a great deal of resistance from key industry participants on **mandating** DTCC’s proposed centralized communication hub and even greater resistance to a **closed proprietary** message schema.

We believe that a large-scale conversion to an industry-wide standard is NOT LIKELY to be adopted if MAJOR changes are REQUIRED of industry participants.

Recommendation

MMI should define the standard messages and utilize XML as the standard message format.

- A migration to **OPEN, MMI-owned standard messages and message formats** will allow the industry to more easily approve, adopt and evolve to achieve full communication standardization.
- Findings indicate that **XML** is the industry’s preferred message format for the standardization of MMI version 2.0. Future message standards may take advantage of FIX (eg. Trading) and SWIFT (eg. Reconciliation) formats.

The industry should establish an implementation program focused on new connections.

- Our adoption strategy includes **“grandfathering” existing connections** (i.e., no changes required for existing communication links), allowing firms to be more pragmatic in considering conversion of existing connections to the new standards.
- Establishing and committing to a consensus **target date for new connections** to be compliant with MMI 2.0 standards will provide the industry’s first milestone in standardization.

Vendor solutions should be quickly built utilizing the MMI standard messages and XML format.

- Expectations of rapid vendor solution releases that are consistent with MMI 2.0 and future standards should provide cost-effective **implementation choices that do not exist today**.
- DTCC's adoption of MMI open standards and governance will provide the **opportunity for DTCC to proceed with plans to release a solution**, attract users and quickly become a competitive option.

The role of MMI and the Data Standards Subcommittee should be expanded

- **MMI should continue to own version 2.0** of the message standards and the continued development and adoption of future message standards. MMI as the central owner will allow for the industry participants to continue governing the standards as the SMA business evolves.
- In addition to owning the 2.0 standards, **MMI should assume ownership of the open XML schema** to ensure continued message format consistency among participants and solution providers.
- **For future standards, MMI should drive the evaluation of other standard formats** such as FIX and SWIFT.
- **MMI should develop and maintain a "test bed"** to allow participants to use MMI V2.0 compliant messages in their development.
- **MMI should develop a certification process** and allow participants to receive certification status.
- In order to effectively manage the industry's progress, **MMI should assume full-time program management responsibilities** to establish and manage the industry timeline, monitor and report on implementation activities across the industry, and drive the development and implementation of future standards.

High Level Cost/Benefit

The program has two main components that will drive the specific cost/benefit for each participant.

Develop External Capabilities: Each participant firm should develop or rely on a vendor to develop the capability of sending and receiving MMI standard XML messages. The costs to develop this capability are expected to be relatively small; but, may vary significantly based on existing technology and development capabilities. The benefits, predominately at the industry level, include industry-wide capacity enablement, interoperability, and reduced barriers of entry.

Enhance Internal Capabilities: Opportunities to enhance internal capabilities will be defined within each participant firm based on a number of factors such as existing technology, account and trade volume, etc. The firm-specific cost/benefit from pursuing these enhancements can vary widely, but should provide participants opportunities to improve operational processes, increase efficiency and scale, and reduce costs.

Next Steps

Each industry participant will have a role to play in achieving industry-wide standardization; however, MMI's program manager role will be critical to the success of the program.

1. Define Detailed Roadmap: MMI and the Board of Governors should define the program management organization to oversee the development of the detailed program plan. Frequent communication, strong board sponsorship, and establishing early momentum will be critical to the success of the overall effort.

2. Define XML Schema: MMI should work with the Standards Subcommittee to develop and publish the Open XML Schema for version 2.0 standards. The Standards Subcommittee should

work with the vendors, outsourcers and DTCC to develop the open standards. All vendors and outsourcers felt XML was the best format to achieve industry standardization for version 2.0 standards.

3. Develop Standards Release Plan: MMI should work with the Standards Subcommittee and Technology & Operations Committee to develop a release schedule for future MMI standards. A timetable should be determined as to the frequency of versions released each calendar year. Best practices typically allow between 2 and 4 releases per year. An adoption time line should be developed in terms of the timing of the release of the standards versus industry adoption. Also, a position on 'grandfathering' old standards should be determined. Best practices allow for 1 or 2 older versions in addition to the current standards.

4. Develop Standards for MSP/UMA/UMH: MMI should work with the Standards Subcommittee to address MSP/UMA/UMH requirements. These requirements should be documented and a gap analysis should be performed on the 2.0 standards versus the new requirements. A timetable should be established to adopt the new requirements which would be consistent with the recommendations around Version Control for Future Standards. In addition, the Standards Subcommittee should work with the FIX Subcommittee within MMI to perform a gap analysis on the new requirements and the FIX standards already available to the industry. Gaps should be presented to the FIX standards group in order to be applied to current and future releases of FIX standards.

5. Develop Test Bed: Once the open XML schema is developed, the MMI Standards Subcommittee should develop a test bed of messages using the 2.0 standards wrapped with the open XML schema. All messages should be part of the test bed. Best practices would develop between 5 and 10 examples of each message type focused on diverse test cases that address all major functionality in the SMA industry space. In addition, once the new MSP/UMA/UMH requirements are developed, the test bed of messages should be modified to support the new requirements.

6. Define Certification Process: MMI should work with the Standards Subcommittee and Technology & Operations Committee to develop a certification process for the industry. The certification process will allow industry participants (including vendors, DTCC, and outsourcers) to produce messages from their processing environments for inspection by MMI. The certification process could be outsourced to a technology partner with MMI owning the governance process. In addition, MMI should explore automated tools to assist the certification process.

Vendor Build Test and Release Compliant Solutions

Vendors Commit to Compliant Future Release: Vendors should continue to work towards supporting MMI Version 2.0 Message Standards. Additionally, by assisting MMI in defining the XML schema, vendors should be positioned to adopt MMI's schema and commit to compliant future releases.

DTCC Release a Compliant Solution: DTCC has indicated that the current version of the soon-to-be-released solution is compliant with the MMI Version 2.0 Message Standards. The XML schema of DTCC's solution may serve as a solid foundation for MMI to define the industry standard schema; however, in the event that MMI's requirements differ from DTCC's solution, DTCC should refine the solution to be compliant with MMI's XML schema requirements.

Industry Participants Adoption

Communicate Bias Toward Early or Late Adoption and Commit to Timeline: Recognizing the differences between industry participant organizations including level of proprietary/vendor technology, internal development capabilities, risk and budget cultures, MMI should expect participant approaches to differ greatly. In anticipation of such, MMI should foster a highly communicative atmosphere within the program allowing firms to openly communicate the approaches and outstanding issues in pursuing firm-level adoption. Participant firms should determine internal approaches and communicate to the program a bias toward early or late adoption and commit to a high-level timeline applicable to the organization. By openly communicating, opportunities for cross-organizational development and testing may be presented and pursued.