

Raise the standard

For a market that's worth trillions of dollars worldwide, it's surprising how haphazardly much of the data in investment funds is distributed. *Sascha Lingling*, president and board member of the openfunds association, investigates.

The data needed to settle investment fund transactions has not been standardised in the past. Data is often entered manually and sent using Excel spreadsheets. Errors and duplicated data are common.

Incomplete, ambiguous or erroneous fund data can have serious, negative consequences for investors. They may choose not to invest in the fund.

The financial costs of these errors are impossible to calculate accurately, although experts agree that they are substantial.

These were some of the reasons why, in 2016 our non-profit organisation, openfunds, created a global standard for the characterisation of investment funds (www.openfunds.org).

A SHARED LANGUAGE

Put simply, the openfunds standard is a "common vocabulary" that has been developed so that all participants in the funds industry are speaking the same language when "characterising" an investment fund. (Data needed to characterise a fund can include the name of the fund group, the "umbrella" name, the currency, ISIN, fund manager etc. over 400 such attributes currently exist per fund.)

Openfunds eliminates potential sources of error and misinterpretation by making fund data more easily exchanged, processed, compared and analysed by computer without the need for manual intervention.

Before openfunds, fund distributors often had their own way of defining the data attributes associated with each fund. For example, a fund name, was sometimes written out in full and sometimes in an abbreviated format. Another variation: the fund currency and the share class were sometimes included in the same field or in separate fields.



AUTOMATION, ANALYSIS AND COST SAVINGS

Any company or organisation active in the funds industry can use the openfunds standard for free.

Fund providers populate the relevant fields which characterise their funds, and share this data with their business partners in whatever format they want – CSV, API, Excel, XML etc., the file format used is not part of the standard.

Although there are hundreds of "openfunds data-IDs", which in effect tag each

fund, usually only a small subset is necessary. More are required depending on the complexity of the fund, if, for example, a fund is sold in many countries or domicile-specific fields need to be populated.

Although investors may be unaware of the underlying standard, funds based on the openfunds standard are easier to understand and compare with other funds. They are also cheaper, faster and easier to trade in.

It has been more than two years since we launched our data standard. What progress have we made?

When we first launched openfunds only a handful of firms supported the standard. Today we have over 64 members who are committed to using the standard, including Morningstar, UBS, Acolin, Credit Suisse, Allfunds Bank, FundConnect, AssetLogic, Franklin Templeton, Invesco and Kneip. We have also extended the standard to include data fields required by the recently introduced MiFID II and PRIIPs regulations.

Currently about 60,000 funds and share classes from over 550 fund providers use the openfunds standard.

CHALLENGES AND OPPORTUNITIES

It's not yet a global standard. Although generally acknowledged as the de-facto standard for the characterisation of fund data in Europe and Asia, the standard has yet to be adopted in the US market due to political and regulatory hurdles.

We are confident, however, that our standard will become widely used in the US. Some US-based fund providers, such as Invesco, are already using it.

Openfunds is often compared with FundsXML which we see as a complementary standard. Without getting too technical, FundsXML specifies the file format and thereby draws on the advantages of XML. openfunds is compatible with a whole array of file formats, including txt, csv, xls(x) as well as XML.

Our standard's flexibility is one of its strengths. It has quickly adapted to changes in the fund industry such as European Union (EU) regulations – the Packaged Retail and Insurance-based Investment Products (PRIIPs) and the Markets in Financial Instruments Directive (MiFID II).

We plan to improve it further in 2019. Up until now, the openfunds standard

has focused on downstream data – i.e. data that the fund provider to the fund distributor.

During 2019 we will introduce the first upstream data fields to fulfil the requirement for "Distributor Oversight Reporting" – an important part of MiFID II which requires that funds are only sold to appropriate investors ("Target Market Compliance").

We predict that there will be a growing demand for fund data because fund providers and distributors will need to work closer to comply with EU regulations.

BLOCKCHAIN BENEFITS

Our standard is also well placed to adapt to major changes in technology, including blockchain, artificial intelligence (AI) and machine learning (ML).

Openfunds provides a data framework that enables machines and AI to process, analyse, and even recommend funds. As the funds industry is data-driven, it is logical development to allow algorithms to take over the time-intensive, error-prone processes that are now done manually.

Where fund data must be secure and immutable yet accessible to all via peer-to-peer networks, blockchain technology can help.

We're not trying to automate all work in the investment fund industry. Far from it. Because there is often an emotional and subjective element involved when investing in funds (incorporate environmental sustainability, social responsibility, or personal beliefs) the human element in the funds industry will always exist.

However, developments in technology and innovative approaches can help make the investment process faster, easier, and more efficient. **bt**

"Today we have over 64 members who are committed to using the standard, including Morningstar, UBS, Acolin, Credit Suisse, Allfunds Bank, FundConnect, AssetLogic, Franklin Templeton, Invesco and Kneip."

Sascha Lingling, openfunds

Sascha Lingling, openfunds

