



ANALYST CONNECTION

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Capital Markets Firms Face Compliance Risks

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Capital markets (CM) firms are facing a parallel set of IT issues. First, regulatory compliance is forcing CM organizations to overhaul their IT infrastructures, especially when addressing storage and security. Second, these companies are trying to focus their IT more specifically on business needs such as managing risk and enabling complex trading.

The following questions were recently posed to Deborah Williams, Financial Insights' Group Vice President of Capital Markets and Risk Management research.

Q: What are going to be the biggest areas of technology investment for capital markets companies over the next couple years? What are the biggest needs these companies must address with IT?

A: We expect that this year's key issues will continue to dominate. The key concerns currently are compliance, credit risk management, and data infrastructure. That said, there are many shifting sands in the capital markets world today. Issues such as a continuing shift to electronic trading, the acceleration of cross-border trading in Europe, and continued pressure on the investment management community pose challenges that will influence technology buying decisions.

Q: What are some key factors for IT companies to keep in mind if they want to sell into CM companies?

A: IT companies that are looking to work in capital markets need to understand the fundamentals of the market segment: revenue rules, speed counts in all things, and technology is perceived as important but too slow to wait on. Vendors need to be sure their companies and their solutions are responsive to these needs.

Q: What are CM companies doing in order to meet their compliance needs? How are they building compliance into their larger IT goals?

A: The combination of 2004 deadlines for Sarbanes-Oxley, Patriot Act, and new SEC regulations were top of mind in 2004. Companies continue to invest in transaction monitoring tools, software for documenting and verifying controls, and storage/records management systems.

Q: What are these companies doing in order to address risk management?

A: Much of the efforts around risk management are currently being driven by regulators. Especially in Europe, where securities firms are subject to new regulations based on the capital adequacy recommendations by the Bank for International Settlements, investment in credit and operational risk analysis, monitoring, and reporting continues.

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