

Overdue Diligence

Has the Industry finally got it right?

You couldn't be blamed for a lack of enthusiasm that borders on outright hostility for the due diligence season. Therefore, we want to ease the pain a little. Or a lot.

Due diligence is always a long hard road, riddled with twists, turns and potholes; no industry standards, no decent utilities to exchange or store information and hundreds of e-mails flying around clearing up unsatisfactory responses or clarifying questions. All this in the interests of transparency and full disclosure, repeated every year in the same grindingly dull, largely manual fashion.

There is another road to be taken...

The AFME Standard Due Diligence Questionnaire (SDDQ).

With the emergence of the final 2017 document from AFME, in December last year, a big step has been taken in unifying the industry to tackle the due diligence season with a sense of collaboration. At last we have some solidarity in the face of yearly market, departmental and institution-specific questions in diverse formats, on numerous sites and through various media.

Although there will still be the same levels of scrutiny, the workload is, happily, greatly reduced. At least it should be; the questionnaire is there to be used freely but, as Mr. Cameron advised from the stage at the AFME London forum, it would be wise not to supplement the contents.

So, we have the necessary guidance. It's good advice, naturally, since standard means standard and the SDDQ would be pointless if at all modified.

It is up for review in September this year so we must remain vigilant.

Moving ahead.

Adoption of the AFME questionnaire has been rather slow, with finalisation in December 2016 meaning many Institutions started the 2017 due diligence season using established methodologies. It now looks fairly widespread; upwards of 65% of the Market will use AFME as the basis for their due diligence and this is likely to rise through the remainder of the year.

Satisfaction with what the questionnaire achieves, covering pretty much all bases at 820+ responses, seems plentiful. By many accounts, it is about 80% generic (or 'corporate template'), the remaining 20% or so being questions seeking market-specific information.

A mammoth task that spans months has been somewhat tamed and the SDDQ generally deemed to be very helpful. This is excellent progress in a world of onerous regulatory and compliance requirements and it is something to celebrate.

A Home to go to...

Some of the big CSDs and Global Custodians have lodged the completed SDDQ, tailored to the market, on their websites and invited members/clients to access the information as required. Other houses remain wedded to traditional tools and whether or not they use the standard format or not, go the manual route, and generally off-line. This variety will very likely shrink with time and the use of a specialist utility, built for the job, capturing the process completely, will be the way forward.

To this end we have built a digital home for the AFME SDDQ (among other questionnaires like the Wolfsberg) which presents the questionnaire faithfully, to the letter and question number, in an online engine that enables the complete exchange of all the necessary information, swiftly and securely, in one place. CODUDE is that home and it is now in the final stages of beta testing.

Documents can be attached at question-level in CODUDE, everything stored and all messaging exchanged within the questionnaire's request and response cycle. All elements of that cycle are recorded and so a full audit trail is built up, in context, from the start.

The economy of effort that the platform will immediately allow its users is substantial; a time-saver that will pay dividends year-on-year as questionnaire templates and responses are used for multiple counterparties and markets.

How to get it right.

The AFME questionnaire, embedded in CODUDE, and the platform itself together provide the complete procedural framework. A clear roadmap is laid out throughout 2017 and into 2018 for driving further development ideas which are informed by Industry input. CODUDE will help underpin the standardisation that AFME has started for the financial institutions it represents. Its use across the market will bring counterparties together in one platform that will execute and ease the due diligence workload.

The benefits are easy to see and numerous, so let's be straightforward. It might be time to examine your current procedures and consider how you might simplify, speed up and take a great deal of the heavy lifting out of the process altogether. We will be more than happy to help.

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