From Overload to Overdrive
RIXML promises to improve the research distribution and access process

BY STEPHEN BROWN, CFA

Depending on the source, purveyors of financial research produce anywhere from 1.2 million to 2 million reports, notes, and e-mails each year. In other words, some form of financial information is disseminated every minute that someone somewhere needs to process. Separating the wheat from this vast acreage of informational chaff is pricey, costing as much as $850 million in lost productivity annually, according to some estimates. The problem is exacerbated by incompatible research-delivery platforms.

Enter RIXML (Research Information eXchange Markup Language), an open-source language based on XML (eXtensible Markup Language), the emerging global standard for data sharing between Internet applications. RIXML is an XML standard that provides a single common format and labeling convention.

RIXML resembles XBRL, or eXtensible Business Reporting Language. (See "The X-Factor" in the September-October 2006 issue of CFA Magazine). In fact, the two are closely related, complementary technologies. XBRL focuses on numerical data and enables company financial filings, such as annual or quarterly reports, to be "tagged" so that they can be electronically downloaded for further analysis. RIXML focuses on descriptive data and enables analysts' reports to be "tagged" so that they can be more easily searched and vetted by the end user. In short, companies can report their results in XBRL, analysts can add their insights in RIXML, and investors can use the interactivity of both sets of data to improve their analysis of companies or investment ideas.

Think of XBRL and RIXML as HTML on steroids. Whereas HTML focuses primarily on how information is displayed, XBRL and RIXML focus on what information is delivered. XBRL and RIXML break data (financial filings for XBRL and research reports for RIXML) into discrete units that can be combined and recombined into multiple formats, allowing research producers to offer tailored content enhanced by on-demand searching, sorting, and aggregation.

Mutual Benefits

The potential for streamlining investment analysis is huge. Scores of Wall Street analysts follow the world's largest corporations. Indeed, Exxon Mobil and General Electric—the companies with the largest market capitalizations—are each covered by nearly 30 analysts. With so many analysts scrutinizing a single company and with so much data being generated on that company, research consumers (mutual funds, investment advisers, retail investors) would have to engage in a tedious, time-consuming slog through an informational swamp in order to find the information they need.

RIXML can streamline that search. "Everyone follows and writes about Microsoft, and mountains of research are produced about the company," says David Hill, director of research products at FactSet Research. "RIXML allows you to narrow your search. For example, you can narrow your search to reports where Microsoft is the primary topic, not a short mention in another report. You can specify the type of research on Microsoft, such as fundamental. You can even look for Microsoft research produced by certain analysts."

Since 2000, fund management companies and investment firms have become increasingly selective about the research they'll purchase and the firms they'll trade through. More firms are "unbundling" research payments from trading commissions in order to increase transparency. Other firms are demanding more proprietary research (research coupled with investment and trading advice) that extends beyond simple buy, sell, or hold recommendations.

"Clients want more trading ideas and more focused ideas—stuff that generates alpha—and this will play a big role in the development of RIXML technology," says Michael Skutinsky, executive director of the trade association RIXML.org. In the past, the approach was "give everyone everything and hopefully they get some trading ideas out of it."

The demand for tradable and focused ideas is growing, to be sure. For some bulge bracket firms, hedge funds account for 40 percent of trading commissions. Unlike mutual funds, hedge funds are free to employ various trading schemes. One popular scheme is capital-structure arbitrage, in which a trader will buy one security while simultaneously selling a different security issued by the same firm.

Such time-sensitive and complex trades are becoming commonplace and profitable for research producers but demand specific, timely research.

"The need to get more granular in research is coming to light," says Skutinsky. "We've heard from the buy side that they only want to pay for what they actually use. Someone might say that he wants value-added, time-length, thematic research that's not maintenance oriented. Unless you can define
what that means, the best you can do is tag your product on the front end and send it to the end user with no way for him to efficiently narrow his criteria."

Another advantage to RIXML technology is the ability to compare research from competing firms, a beneficial feature for any buy-side firm. RIXML can help research consumers more easily identify the highest-value research, bypassing the marginal research.

Benefits of direct comparison will also accrue to sell-side firms that prove to be consistent alpha generators. "In leveling the playing field, we aren't putting ourselves at a disadvantage," says Ling of the potential RIXML brings for increased competition. "Our concern is that we are not getting all our research in front of our clients. We are not concerned about more competitors showing up. We believe we are competing on ideas, and we have faith in our ideas."

**Mutual Concerns**

Despite its many and obvious benefits, universal acceptance of RIXML hasn't been a slam dunk. One significant roadblock to RIXML adoption is that research departments, unlike trading departments, are cost centers. Freeing money from the IT budget to implement a qualitative change in a cost center is a much tougher sell than for a profit center, especially when legacy costs are factored into the equation.

The emergence of a new standard raises other questions for the sell side about the potentially costly development of another purpose-specific research report and distribution language. Is the buy side clamoring for a specific standard for financial research documents, and do they want to access information from a variety of sources and not simply from those that comply with a narrowly defined standard? In fact, they are neither clamoring for nor demanding RIXML. (Fidelity Investments, MFS Investments, and Putnam Investment are the only buy-side members of RIXML.org.)

For smaller firms the expense of developing RIXML taxonomy can be onerous. Fortunately, affordable outside vendors can perform the task, converting individual or bulk non-RIXML-based research to tagged information in a research database.

"We offer an ASP (application service provider) model for smaller firms," says Skutinsky. "It's a hosted system. Clients go online and enter their research. We make sure that it complies with RIXML standards, and then it is distributed to vendors like Thomson, Reuters, and Bloomberg."

Buy-side institutions, however, might prove hesitant to invest in technology capable of exploiting RIXML until a substantial number of sell-side firms commit to disseminating their research in RIXML-based format.

**The Future**

The evolution of RIXML currently favors third-party delivery. To that end, the major aggregators are working closely with RIXML.org to further refine the standard and develop RIXML-based solutions. "Back in 2000, the intent was to go peer to peer and cut out the vendors," says Skutinsky. "But you need those people in the middle; that's what many on the buy side use."

RIXML isn't the first attempt at developing a standard coding language for parsing investment research. In 2000, Mulex.com founded Investment Research Markup Language (IRML) with the aim of standardizing the exchange of financial research information between research creators, vendors, and clients. IRML failed because it was seen as a vendor-driven initiative. It was also perceived as going too far in its ability to allow users to manage the data, which may not have been in the best interests of research producers.

RIXML is unlikely to suffer a similar fate. Enough investment community participants are in the process of implementing RIXML to make it stick. And RIXML, unlike IRML, has gained international traction, particularly in South Africa, where, according to Ling, "four out of the top five fund managers are using RIXML technology."

That said, the percentage of financial data tagged with RIXML is still small and top heavy, dominated by bulge-bracket firms. By the end of the first quarter of 2007, 10 sell-side firms and seven research vendors have committed to having data tagged with the RIXML schema, according to RIXML.org. The challenge for the sell side is to promote RIXML so that the buy side reaps the benefits, which should filter back to the sell side in the form of higher commission revenues.

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**RECOMMENDED RESOURCES**

- RIXML.org (an RIXML trade organization)
- *Introduction to Financial Technology* by Roy S. Friedman (Academic Press)
- "Why Use XML for Documents & Content?" by Ritwan Virk (CambridgeDocs)