

PERSPECTIVES

PERSISTENT AND GROWING CHALLENGES FOR REGULATORY AND INVESTOR REPORTING THAT ASSET MANAGERS FACE TODAY


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In the wake of the global financial crisis, a few countries have made some efforts at deregulation. However, by and large, both the number and complexity of regulations, and the associated reporting requirements for asset managers continue to mushroom globally. For example, in the US, the mutual fund industry was only able to elicit several postponements in N-PORT reporting as part of the Investment Reporting

Modernisation Act. Starting in April 2019, mutual funds and certain exchange-traded funds (ETFs) must begin to file their N-PORT report with the US Securities and Exchange Commission (SEC).

Another example of a new regulation that is piling on top of the existing regulatory reporting required for some asset managers is the Packaged Retail and Insurance-based Investment Products Regulation (PRIIP). This new standardised regulatory disclosure



requirement aims to increase the transparency and comparability of investment products for retail investors. In addition, a large number of asset managers have been forced by their investors to either begin or to do more in-depth environmental, social and governance (ESG) compliance reporting.

Why persistent operational challenges remain

Given that both the breadth and depth of required regulatory reporting and investor disclosures continues to increase unabatedly, why is it that most asset managers are still so ill equipped to deal with their ongoing reporting? We have found that

deficiencies in infrastructure, operations and subject-matter expertise have hampered asset managers in their ability to have to sound, complete and cost-effective regulatory and investor reporting.

From our experience, asset managers are using a largely manual and piecemeal approach to managing data and workflows for reporting. This issue is further exacerbated by many asset managers using Excel spreadsheets and simplistic regulatory software that merely serve as a back-end data receptacle for regulatory reporting. Despite what they may advertise, the typical regulatory reporting software used by many asset managers is not useful in aggregating and curating disparate data

from numerous sources, such as prime brokers, administrators, accounting systems, spreadsheets and risk management systems. Proper data aggregation and curation is the most essential foundation for sound reporting, which we have found most asset managers lack.

Furthermore, many asset managers lack the necessary infrastructure, such as a robust data warehouse, risk management systems and qualified and experienced staff to properly perform the wide array of regulatory and investor reporting that asset managers must do today. We often see firms go through a fire drill on a regular basis where they simply throw bodies from their back office and accounting departments, who do not have the requisite subject-matter expertise, to do their external reporting in a mostly manual fashion.

Because of these kinds of deficiencies for reporting, asset managers are not fully aware that they put themselves in regulatory peril with regard to the accuracy and timeliness of reporting. Furthermore, they continue to be challenged operationally when any regulatory or investor reporting work needs to be done. As a direct result, the tremendous financial costs, inordinate amount of time spent and operational risks stemming from poor and inefficient workflows

continue to dangerously escalate for many asset managers.

Build versus buy

What, then, is the best solution for asset managers to effectively deal with their complex and ever-growing requirements for regulatory and investor reporting?

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In the end, the optimal solution depends upon an asset manager’s critical assessment of their near- and long-term reporting needs, and their internal capabilities for reporting. We have found that only a small number of the largest asset managers that already possess the necessary infrastructure, such as systems and experienced staff and concomitant processes and controls, should be doing their regulatory and investor reporting by themselves. The majority of asset managers would benefit most

from an operational and cost perspective by utilising a managed service or a software as a service (SaaS) solution for their regulatory and investor reporting, as well as their internal reporting.

Selecting the 'right' service provider: five key considerations

We recommend extreme care in selecting a service provider for regulatory and investor reporting. Service providers, such as fund administrators and SaaS firms, that perform a managed services solution for reporting are not all alike in capabilities, experience or pedigree.

An asset manager should first perform a proper self-assessment to determine its immediate and longer-term needs for reporting. This self-assessment can be also be done by a qualified and experienced adviser who has experience with regulatory and investor reporting. After a proper self-assessment has been performed and the asset manager has a sound roadmap for its reporting, we then recommend that an asset manager conduct thorough due diligence on the capabilities of prospective service providers before choosing one.

There are five key areas that an asset manager should focus on in assessing a service provider's capabilities: (i) ability to do complete data aggregation, normalisation, curation and storage; (ii) ability to perform complex calculations for holdings,

risk management and performance; (iii) knowledge and experience with the proper interpretation that should be utilised for various kinds of regulatory and investor reporting, such as Form PF, N-PORT, CPO/PQR, Open Protocol, ILPA and so on; (iv) ability to review and check reporting content for 'red flags' before filing with the regulators or reporting to investors; and (v) scalability and flexibility to handle new financial products, as well as other types of regulatory, investor and internal reporting as the asset manager grows.

Strategic and marketing implications

Ultimately, asset managers must realise that sound reporting for regulators and good transparency reporting for investors not only lowers their financial costs but also materially reduces their compliance and regulatory risks. In addition, we have seen that smart asset managers are now using their 'better' reporting as a strategic lever and marketing differentiator to attract and retain investors. **RC**



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