Keys to a sound and sustainable regulatory reporting programme

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On a global basis, regulatory reporting requirements for asset managers not only continue to grow but are becoming ever more complex. Examples of major areas newly in scope for reporting are sustainability, environmental, social and governance (ESG) and liquidity risk under stressed market environments. The breadth and depth of new reporting requirements for asset managers pose significant challenges to implementing a sound and repeatable process for regulatory reporting and compliance.

Although reporting requirements have become more complex, the process and infrastructure used by asset managers for reporting has largely remained the same and has not evolved in any meaningful way. Surprisingly, many asset managers still rely upon largely manual processes that depend upon Excel spreadsheets passed between several internal groups, such as finance, accounting and operations. Typically, we have found that these managers also have little formal technology infrastructure in place to support their regulatory reporting activities.

Roots of the problem

Among a wide range of asset managers, intentional or unintentional 'neglect' for regulatory reporting and compliance is often driven by several major factors, among which are culture, negative attitudes regarding regulatory reporting, poor processes, and poor infrastructure for data management and reporting.

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Keys to a sound and sustainable regulatory reporting programme

We have also found that some asset managers seem to have a culture based upon a flawed premise that regulators may not 'catch them' or punish them harshly for poor or incorrect reporting. In our experience, such managers can rarely be induced to change direction until they or a close competitor has a major regulatory blow-up.

However, most asset managers do understand that weak processes and lack of sufficient infrastructure is preventing them from having a sound and sustainable process for regulatory reporting. In most cases, these managers can be assisted to make pragmatic decisions to make a change when they see the significant cost, efficiency and regulatory protection benefits of doing so.

What are the options for reporting?

We have found that most asset managers continue to have informal processes and no real infrastructure for handling complex and recurring reporting, such as regulatory reporting. In this area, options open to asset managers follow the classic 'buy versus build' decision matrix.

However, in reality, only a few of the largest asset managers have the necessary staff, analytics and systems to do recurring regulatory reporting efficiently, in-house. For the overwhelming majority, investments in infrastructure (including a data warehouse, portfolio and risk analytics, and dedicated staff to run and maintain this infrastructure) would be cost prohibitive and not the ideal solution.

For asset managers concerned about cost-control and efficiency, the preferable alternative is the 'buy' option. How then should an asset manager choose from the myriad buy options available to them? In making their choices, asset managers need to be aware that currently all

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of the 'buy' options that are software-driven in the marketplace for regulatory reporting are only partial solutions.

These software solutions are only 'partial' solutions in that they are intended primarily as a replacement for using Excel spreadsheets – that is, for organising and tracking final data answers to the questions in a regulatory report filing. Generally, RegTech reporting software does not natively perform the heavy lifting work needed to do regulatory reporting in its entirety. Specifically, this kind of software cannot carry out the needed data aggregation, data normalisation, data enrichment, and data transformation and curation that is involved in regulatory reporting.

These types of software require implementation and sizeable annual software user licence fees. The asset manager must also run the software and perform the data management work on an ongoing basis and upload data into the software. Furthermore, the asset manager must calculate or perform complex financial modelling to produce the derived data content that is necessary in several sections of many regulatory filings today.

A second 'buy' option for regulatory reporting is using the manager's fund administrator. A number of the largest fund administrators are offering 'managed services' for regulatory reporting. However, there are a number of issues that should be considered when using a fund administrator for regulatory reporting. The majority of administrators use manually-driven and Excel-dependent processes for doing a fund's regulatory reporting, so they do not provide a more robust solution in that regard.

By using a fund administrator, an asset manager is simply outsourcing its manually driven process for regulatory reporting to their administrator, who in turn performs this work in a manual fashion. Asset managers

as a hard market continues

should be aware that the personnel at administrators who are doing the work are not especially high-quality and have no particular expertise with regulatory reporting. Lastly, fund administrators charge funds premium fees for doing regulatory reporting, as it is marketed as an add-on service and sold to clients that are viewed by the administrator as a captive audience.

A third option is using a firm that takes a software as a service (SaaS) approach to data management, data curation and outsourced reporting for regulatory reporting. This approach has major advantages, in that it can address heavy lifting issues related to data aggregation, data normalisation, data enrichment and data transformation and curation, and all at the same time.

The SaaS approach also provides much needed data and reporting infrastructure, without substantial upfront and ongoing maintenance costs, and without the need for reference data, analytics and dedicated staff. This solution is optimal for most managers. However, it should be noted that there are relatively few firms in this space thus far, and they are not all alike in terms of experience, technology and pedigree.

Long-term considerations

Ultimately, the optimal ‘buy or build’ decision will be driven by a range of manager-specific factors, including the types and frequency of regulatory reporting, the budget available and the extent of in-house data management expertise. In addition, managers must factor into their approach the many other similar or related reporting obligations that asset managers must do, such as investor-related reporting, ESG disclosures, and internal data and reporting to support the investment team and management.

In the long run, we believe that the most sustainable approach is having an integrated framework for all types of internal and external reporting. Only by taking such an approach, can an asset manager not only see true cost and workflow efficiencies but also, and more importantly, have a sound and sustainable programme for all of their data and reporting needs, including regulatory reporting.

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