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Effective Oversight and Controls Amidst Rising Adoption of External Fund Administrators in Asia Pacific

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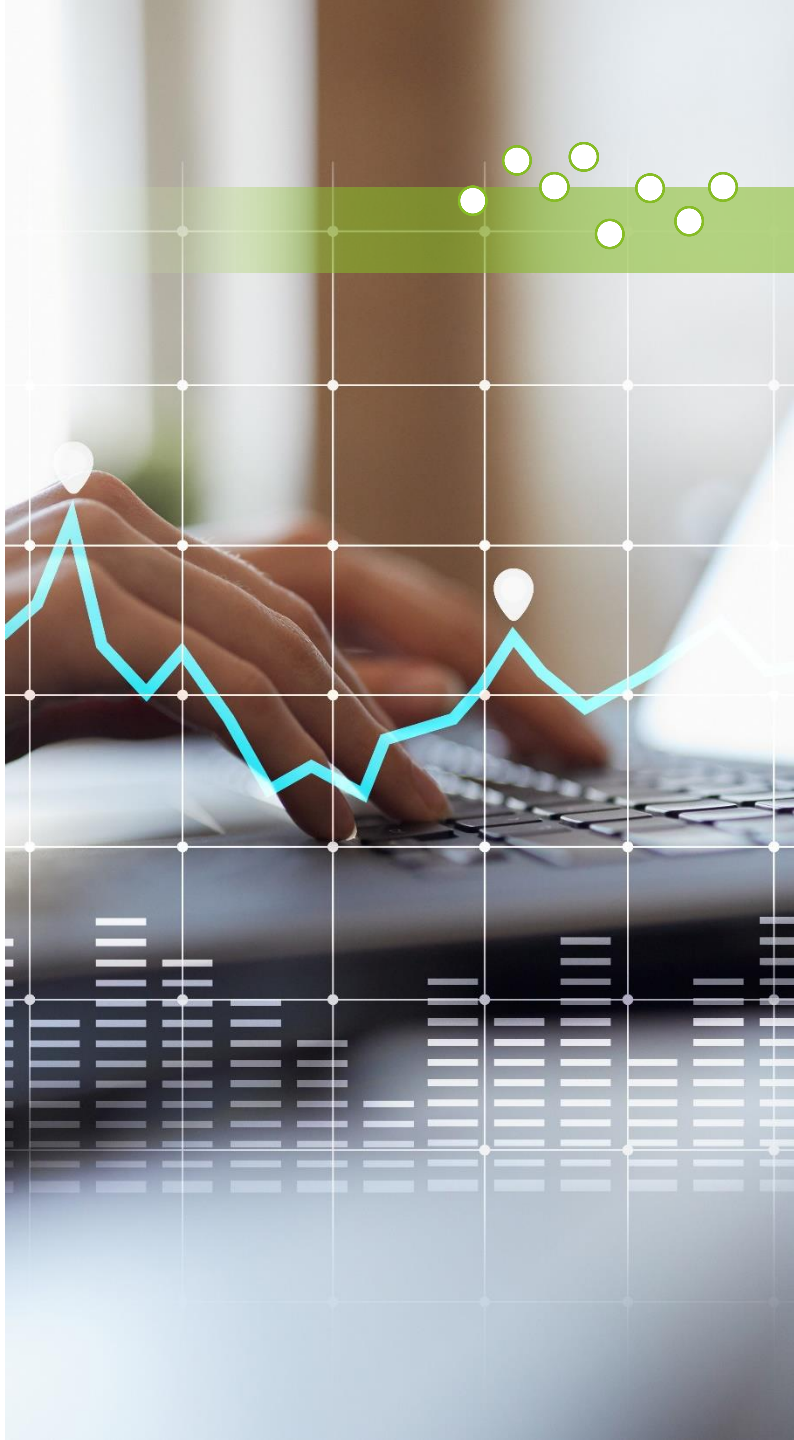
Foreword

The investment management industry has increasingly outsourced middle and back, and, to a certain extent, front-office functions in Asia Pacific. This trend emerged due to the heightened pressure on investment managers to deliver returns in a highly competitive market, with clients becoming increasingly price sensitive. These factors have led to shrinking profit margins, prompting investment managers to seek ways to improve operational efficiency, reduce costs, and enhance performance. Outsourcing provides a means to achieve these goals while managing risk and maintaining a competitive edge.

As more processes are outsourced, robust oversight and controls become even more critical to ensure service quality, accuracy, and timeliness. Furthermore, tightening regulatory requirements intensifies complexity, requiring investment managers to prioritise regulatory compliance. As such, investment managers are fortifying oversight and control over Fund Administrators (FAs) while navigating the complexity and intricacy of their operating environment. Investment managers who are able to build a strong and collaborative relationship with their FAs can focus on their core service offerings while continuing to deliver value to their clients.

In this paper, we will explore several trends around fortifying FA oversight. First and foremost, the importance of building a robust oversight and control framework. Investment managers should ensure this framework is harmonised across geographical locations while addressing local specificities and requirements. In addition, investment managers are reevaluating the nature of their existing oversight model. While most adopt a more policing and ad-hoc approach, transitioning to a business partnership enables better collaboration and unlocks untapped business value. Above all, regulatory requirements and expectations might be the most obscure topic, leading to potential reputation and business consequences if not adequately addressed. Successfully navigating the plethora of regulations would require joint ownership from investment managers and FAs.

In the face of stricter regulations and evolving client expectations, investment managers who forge a strong business partnership with their FAs, while exercising adequate oversight and controls with technology in mind would be more likely to emerge triumphant in the marketplaces in Asia Pacific.



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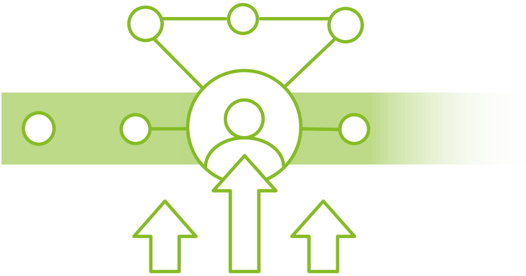
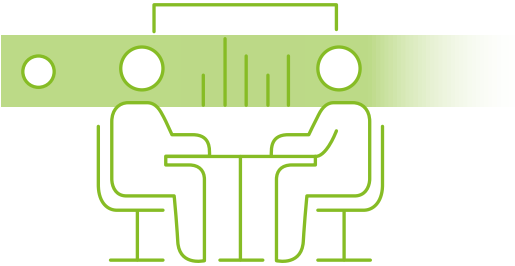
Key messages

There is no one "right answer" to the optimal oversight framework and controls. An ideal framework should be harmonised regionally within Asia Pacific, with a cohesive oversight team working hand-in-hand with FAs to best process operational activities.

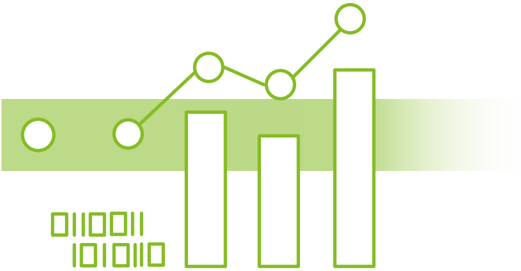
Outsourcing should be more than just a transactional relationship. Investment managers who embrace a business partnership transformation through embedding FAs deeper within their day-to-day operations, while establishing a defined governance structure accompanied by an escalation path for issues, will operate more efficiently than the rest.



Regulatory expectations are evolving with increasing complexity. Investment managers need to work jointly with FAs to stay on top of the latest regulatory developments and devise changes as required to remain compliant.



Building upon robust and advanced technology tools and solutions will enable investment managers to witness success on an operational level and improve overall servicing quality.



Trends in fortifying fund administrator oversight

- Front focus on oversight and controls
- Establish business partnership with the Fund Administrator
- Align with regulatory expectations

Front focus on oversight and controls

As investment managers grapple with an increasingly complex market environment, they outsource all or part of their middle and back-office functions to a third-party FA. The extra capacity allows for an increased focus on their core investment business rather than getting tied up in operations and infrastructure complexities.

However, this does not mean investment managers can fully and mindlessly delegate all processes to their FAs. They will need to ensure there is an appropriate level of oversight and control over the outsourced processes. Over the years, investment managers have exercised varying degrees of oversight depending on factors such as the complexity or criticality of outsourced processes, performance and alignment to Service Level Agreements (SLAs) and risk tolerance levels.

Increasingly, investment managers are advocating for more oversight and controls to address the challenges they face on multiple fronts, including stringent regulatory requirements, fragmented service provider landscape across geographical locations and the need to adapt quickly to technological advancements.

Oversight model harmonisation and technological capability integration
As investment managers dial up the level of oversight, they could get lost in implementing controls to address their immediate requirements without considering whether such controls are value-adding in the long run. Coupled with the fact that investment managers often leverage multiple service providers across the investment management value chain or geographic locations, the oversight and control model could quickly become convoluted and defy its initial purpose in risk mitigation.

To avoid this pitfall, investment managers should adopt a global approach for oversight to:

- Ensure consistency and alignment of FAs across different geographical locations, particularly on the due diligence process around evaluation questionnaire rollout and operating memorandum reviews
- Consider deploying cohesive oversight team(s) to monitor FAs and periodically review the controls in place

The oversight team(s) should work closely with IT to better integrate technological capabilities into the oversight model, given that FAs are increasingly looking to utilize enhanced tools, sophisticated reporting dashboards and workflow solutions.

Complimented with a governance structure and clear roles and responsibilities, investment managers will be able to better collaborate with FAs in resolving issues on a day-to-day basis, enhancing the efficacy of the overall oversight model.

Prioritisation of complex processes over commoditized processes

Investment managers should focus their attention and effort on complex processes that require greater manual intervention or in-depth analysis from multiple teams. Examples include:

- Reconciliation break management
- Failed trade resolution
- Customised reporting
- Transfer agency

Transfer agencies can pose a significant challenge due to the prevalent use of legacy systems and the wide-ranging scope of responsibilities - including record-keeping of investors' information, corporate processing, subscription and redemption and checks on anti-money laundering.

Other less complex processes are considered "commoditised" processes: they are usually mature processes with a high level of automation, where service levels do not significantly differ between FAs. Examples include reconciliations, standard return calculations and basic accounting.

Investment managers should fully aim at high Straight Through Processing (STP) levels for these processes to reduce manual intervention while performing checks and controls. One way to achieve this is by implementing reporting dashboards that automatically track data status or flag reconciliation breaks that require immediate attention from the investment manager.

As investment managers increase oversight over their FAs, care should be taken to ensure that the oversight model is harmonised across geographies, and that cohesive oversight team(s) works closely with IT and the FA. Furthermore, investment managers should dial up the controls on complex processes that require manual intervention or sophisticated analysis, while automating the controls for commoditised processes to the fullest extent possible to free up the team's capacity to focus on what truly matters.

Establish business partnership with the fund administrator

Traditionally, the investment management industry has opted for an outsourcing approach which is often transactional in nature. FAs would focus on fulfilling the contractual standards (e.g., KPIs / SLAs) but stop short of serving as a strategic partner who helps investment managers to improve and scale existing business and operations.

Recent developments call for a shift from the traditional outsourcing model to a strategic partnership approach. As the industry is growing increasingly complex, more functions are taken up by third-party service providers that require a higher degree of efficiency and accuracy. Additionally, regulatory requirements have become more onerous to navigate, and recent market turmoil has further led to tightened grip on investment managers to take full accountability for their operations.

Joint ownership over regulatory changes
The above factors indicate the need for a closer and more strategic partnership model for investment managers to maintain an edge in core competencies, technology, and regulatory compliance. First and foremost, FAs should take joint ownership over regulatory changes. Since they often serve multiple investment managers, it is of utmost importance for FAs to keep up to date with the regulatory landscape and proactively work with investment managers to ensure compliance. A partnering FA would take initiatives to, for example, present current periodic views on the interpretation of any recent or upcoming regulations as well as its implications in terms of IT / process changes required.

BAU integration
From a process perspective, investment managers should integrate FA's oversight and controls in their Business As Usual (BAU). To enable this, they should consider:

- A "co-location" model, where FA's teams are stationed within / near the investment manager's premises to enhance collaboration and enable a more comprehensive coverage of end-to-end processes
- Transparent, direct, and frequent communication channels
- A clear governance structure to ensure swift feedback and incident handling

Technological innovation
Furthermore, the evolving technological landscape rapidly differentiates investment managers. "Followers" would be rendered to play catch-up, with considerable competitive disadvantages and potential technological discrepancies with their FAs, and clients. Technological "Pioneers," on the other hand, leverage technology to the fullest extent to serve the increasing client and regulatory demands. Investment managers should work with FAs on technological innovations and the corresponding implementation roadmap to address operational and regulatory requirements. Benefits would range from increased service quality and efficiency to fewer errors and incidents, while maintaining a reasonable cost base.

A successful transition to a strategic partnership model ultimately allows investment managers to harvest the total value within a partnering relationship. The more collaborative partnership style increases transparency and alignment, enabling both parties to tailor processes, systems and tools to the ever-changing client and regulatory expectations. Furthermore, investment managers can witness a more effective risk and incident management process and better pre-empt and respond to such cases.

Align with regulatory expectations

Failure to meet regulatory compliance has several adverse impacts on the investment manager. It would waste time and effort in terms of additional reporting to the regulator and result in reputation implications, enforcement actions, and even fines. All in all, it could lead to massive business impacts and close off future opportunities.

Alignment to regulatory expectations has become a key focus area for investment managers, as well as one of their most significant priorities considering that:

- Regulatory expectations continue to evolve and increase in complexity, in particular with the focus on frontier topics like Environmental, Social and Corporate governance (ESG) investing, digital assets and cybersecurity
- The overall operational landscape is becoming more sophisticated, with investment managers introducing more parties through outsourcing or offshoring, thus requiring increased scrutiny and reporting to local regulators

As such, investment managers should devote more time and attention to aligning with multiple parties, staying current on the latest regulatory development and implementing the necessary controls to ensure compliance with regulatory requirements.

The following section provides common regulatory guidelines on outsourcing, applicable to investment managers operating in Asia Pacific.

Due diligence in selection and monitoring of FAs

The investment manager should develop and implement a procedure to guide the decision-making process about outsourcing and address outsourcing risks. The following aspects should be considered when developing the procedure:

- Set up an appropriate governance structure with clearly defined roles and responsibilities to oversee outsourced activities. There shall be at least one fit and proper manager-in-charge who holds a position of authority within the investment manager to supervise the outsourced functions
- Maintain sufficient audit trail over the due diligence of FAs
- Monitor the performance of FAs to ensure that the outsourced activities have been conducted in compliance with the applicable laws and regulatory requirements and the expected level of standard
- Establish a reporting mechanism when there is a failure by FAs to perform the duties required

Contract with FAs and client confidentiality

The investment manager should enter a legally binding written contract with the FA with the appropriate level of detail that commensurate with the risks, size and complexity of the outsourced activities, and the investment manager should take appropriate steps to require that the FA protects confidential firm and customer information from intentional or inadvertent disclosure to unauthorized individuals. The contract shall include provisions dealing with the following aspects:

- Responsibilities of the investment manager and the responsibilities of the FAs and how such responsibilities will be monitored
- Limitations or conditions on the FA's ability to sub-contract
- Termination rights, minimum periods before an announced termination can take effect
- Liability of the FAs to the investment manager for unsatisfactory performance or other breaches
- Mechanisms to resolve disputes if any
- Responsibilities relating to IT security and business continuity
- Measures to protect the confidential information of both the investment manager and its clients

Access to books and records
The investment manager shall at all times remain ultimately responsible for keeping all required records and documents at their premises, as well as putting in place systems and controls maintaining proper records and the investment manager shall ensure that the regulator has access to the books and records related to the outsourced activities.

IT security and business continuity
The investment manager shall take appropriate measures to ensure the FA maintains appropriate IT security to protect proprietary and customer-related information, software, and disaster recovery capabilities.

The investment manager shall also ensure that:

- FAs have in place a comprehensive IT security program to protect the investment manager's proprietary and customer-related data and the security of software
- FAs have in place emergency procedures, disaster recovery and contingency plans
- Terms and conditions relevant to the use of subcontractors concerning IT security
- Periodic testing by the FAs of critical systems and backup facilities
- Disclosure by FAs of breaches in security resulting in unauthorised intrusions that may affect the investment manager

Other outsourcing related topics
Investment managers, FAs and clients must align on the criteria for triggering reportable incidents to the regulator. For example, on pricing errors, investment managers should consider whether they are cumulative (i.e., if the impact grows through time), arise from different root causes and the corresponding overall impact on client's valuations. Such errors should be corrected as soon as possible, and remediation actions should be undertaken to prevent further errors.

Investment managers should arrange to reconcile internal records against those issued by third parties to identify and rectify any errors, omissions or misplacement of assets. The appropriate senior staff should check, review and approve these reconciliations. Reconciliations should be performed regularly (and, in any event, at least monthly) with regard to the nature of the fund assets.

Example of regulatory guidelines on outsourcing in key Asia Pacific markets:

Hong Kong
Hong Kong is governed by the Securities and Future Commission (SFC), which has endorsed the Principles on Outsourcing of Financial Services for Market Intermediaries, published in 2005 by the International Organisation of Securities Commissions (IOSCO). Other relevant rules and regulations include:

- Code of conduct for Persons Licensed by or Registered with the SFC
- Fund Manager Code of Conduct
- Management Supervision and Internal Control Guidelines for Persons Licensed By or Registered with the SFC

Singapore
Singapore is governed by the Monetary Authority of Singapore (MAS), which has issued the MAS Guidelines on Outsourcing: guidance on risk management of outsourcing arrangements applicable to all licensed financial institutions. Specific guidelines pertaining to technology risk and business continuity management include:

- MAS Technology Risk Management Guidelines (TRMG)
- Business Continuity Management (BCM) Guidelines respectively, to be taken into consideration when putting in place outsourcing arrangements.

Case study

Background and context
A global fund manager experienced an increased number of operational errors and incidents in its outsourced FA processes in Asia Pacific. As such, they were looking to determine the root cause and improve upon the existing oversight model.

The fund manager performed a holistic review of its oversight and control framework to identify improvement opportunities, while ensuring regulatory requirements are accounted for. The scope of work involved the following:

- Detailed review on existing oversight and control processes over service providers in Asia Pacific
- Deep-dive of local regulatory requirements to ensure regulatory compliance, as applicable

Challenges
Several challenges were identified across the value chain including service provider oversight, valuations, fund accounting and reconciliations.

On service provider oversight

- The fund manager performed a policing role in the oversight model, adopting a reactive stance in managing checks and handling escalations and incidents
- Manual interventions in the controls and checks, which lower staff capacity and increase operational risk

On valuation and fund accounting

- Frequent delays in NAV acquisition, with the service provider only sharing the consolidated NAVs which might be hindered by individual untimely NAV

On reconciliations

- Potential gaps in the reconciliation scope, for example, missing middle-office vs. back-office reconciliations on a position level
- Controls are deployed on ad-hoc basis due to past incidents and / or requests, which may no longer be relevant
- Misalignment on the regulatory interpretation of reportable incidents between the investment manager and external stakeholders

Key considerations
Based on the review, the fund manager has considered opportunities to reinforce the oversight framework and controls leveraging three key measures:

- Consider a more proactive approach in managing and engaging with service providers and increasing consistency in the oversight model across the firm's entities
- Strengthen the risk and control framework by assessing the relevance and suitability of existing measures on a regular basis, ensuring that only meaningful controls and checks are in place and that they are in line with regulatory expectations
- Achieve higher operational efficiency through technology automations, thus releasing staff capacity to focus on higher value activities

Market insights

- Oversight Model
- Valuation: pricing and NAV
- Reconciliations and break resolution
- Leverage technology to optimise fund administrator oversight

About the survey

We issued a survey to seven medium to highly mature investment managers in Asia Pacific with the characteristics as follows:

- Business and operations in Asia Pacific
- Middle and back-office functions outsourced to service provider(s)
- Varied in size and type—alternatives, private, fixed income, for example, were all represented

The survey covers three pillars:

- First, respondents were asked about the service provider oversight model, including the performance review process, due diligence process and the typical key performance indicators (KPIs) used to assess the performance.
- Second, respondents provided the common controls adopted for pricing and valuation process, as well as typical controls for NAV monitoring.
- Finally, respondents offered us insight in overseeing reconciliations and break resolution, covering roles and responsibilities, frequency and data and technology solutions used to reduce manual activities.

The following section presents our key findings from the survey. We will also explore the use of technology to optimize the investment managers' oversight and control processes.

Oversight model

An effective governance structure
To effectively govern the efficacy of FAs, investment managers should consider the oversight framework from a top-down lens, beginning with a well-established governance structure. However, there is no one "right answer". Some investment managers may designate the oversight duty to formal committees such as Risk & Compliance Committee and Service Provider Review Committee. Others may rely on individual business teams to perform FA oversight and review through scheduled follow-ups.

While fragmented, three characteristics are common across successful governance models. Firstly, the utilisation of a dedicated relationship manager to discuss topics specific to the FA. Then, the governance structure must clearly define stakeholders and their roles and responsibilities. Lastly, enabling escalation channels is indispensable to ensure timely decision-making as part of the incident-handling process.

Continuous oversight and control processes
Under the overarching governance structure, investment managers should ensure an effective oversight framework and continuous controls are in place for the partnership to succeed. Three pillars form the foundation: service provider performance review, strict controls, and incident management.

A defined service provider performance review process involves weekly or monthly discussions over common topics, including major service delivery issues, KPI monitoring, ongoing strategic initiatives and in-flight projects. When investment managers adopt a multinational structure, they should tailor the process to local specificities, yet set up a global framework to ensure consistency and standardisation across different entities.

Among the performance review topics, KPI monitoring is crucial as it introduces accountability and tangible metrics to assess FA's performance. Satisfactory KPIs include a mix of Operational KPIs that track BAU processes, such as % of timely NAV releases and Strategic KPIs, such as STP rates or technology spend. As a rule of thumb, they should cover all essential areas yet avoid the pitfall of introducing unnecessary complexity.

Example KPIs include:

Category	KPIs
Fund Accounting & Valuation	
Valuation & Security Pricing	List of securities with stale prices (excluding non-movers), including their weight on each sub-fund
	Number of stale prices
	List of securities being fair valued (usually at month end), including their weight on each sub-fund
NAV Control	% of timely NAV releases
	Number of timely NAV releases
	Volume of funds calculated as a part of NAV calculation
	Number of pending portfolio transactions
	Number of material NAV errors (i.e., >Materiality threshold)
Others	
Corporate Actions (CA) Processing	Number of CA processing delay / errors
	% of CA processing delay / errors
Custody & Bank Reconciliations	Number of open trade and cash breaks at month end

To further support the review process, investment managers should devise a scoring regime to evaluate FAs and keep track of performance trends. Meanwhile, more tech-savvy investment managers employ centralised database for monitoring FA's performance, capturing any weaknesses and actions, then generating an automatic summary dashboard. Additional controls may include broader reviews of the FA's internal processes (e.g., KYC / AML, disaster recovery process) and internal controls review (e.g., internal audit, quality control).

Despite the various measures to minimise risk, incidents may occur, so defining a proper incident-handling procedure is crucial. Investment managers should establish a dedicated escalation channel for incidents or breaches. During the incident handling process, close collaboration between the investment manager and the FA is required to discuss and agree on remediation actions while developing a framework to follow up and monitor their efficacy. In the situation that FA's performance continues to trend downward, investment managers could amend commercials and terms or even terminate the relationship.

Due diligence exercise
The other chief responsibility of the investment manager's governance unit is to conduct due diligence checks, especially on staff competency and recent personnel changes, given that most FAs face high turnover in a competitive environment where talent shortage is becoming the norm. Investment managers should not stop short of conducting a one-time exercise, but incorporate it into a regular process to continuously evaluate FA's capabilities in terms of talent.

While the due diligence exercise provides essential insights, investment managers should also conduct onsite visits and be involved in the performance appraisal process of the FA's staff.

Fund administrator selection criteria
In the case where a change of an FA is considered, investment managers should first carry out a rigorous review with regard to the following criteria:

- Global footprint & jurisdiction
- Past client records and credentials
- Funds / products supported
- Management team structure
- Technological capabilities and compatibility with in-house systems
- Fee structure

Once a short list of FAs is determined, investment managers should conduct further detailed due diligence, as described in the previous section, to scrutinise FAs' capabilities, compatibility, and culture.

All elements will empower the investment manager to achieve an ideal outsourcing partnership. Starting with an effective governance structure, followed by a detailed due diligence exercise, all underpinned by a continuous performance monitoring and enhancement framework. The result should be a robust, transparent, and collaborative oversight model reacting rapidly to changes and issues if required.

Valuation: pricing and NAV

Valuation: Pricing and Net Asset Valuation (NAV)
The current period of market volatility highlights the importance of ensuring correct and reliable valuations are calculated. Heightened pressure from regulators to achieve low tolerance for errors as well as expectations from clients for greater transparency, are some of the key factors that prompt investment managers to enhance the oversight and controls on the valuation processes.

Controls on pricing and valuation
The pricing and valuation process consists of the FA collecting from market data sources and publishing the pricing data, which are subsequently used for NAV calculations. The investment manager usually defines the pricing hierarchy, with assigned primary, secondary and often, tertiary pricing sources. Upon receipt of the pricing data, the investment manager should check, validate, and supplement pricing data based on multiple independent pricing sources and benchmarks.

For public assets, daily controls include reviewing fair value pricing factors and ensuring that asset prices are checked against after-market movements. Another commonly applied control is on price variations, which validate that daily percentage price movements are within pre-defined tolerance levels. Considering the asset class's volatility, care should be taken to ensure an appropriate tolerance level.

Notwithstanding, stale prices must be identified, analysed and appropriately priced at fair value. The frequency of reviewing stale pricing should be daily for public assets and less frequent for private assets due to lower liquidity.

Similar checks are performed for private assets, albeit with significantly less frequency (i.e., monthly or quarterly). Assumptions, estimates and judgement must be used to determine the value of investments. Hence there might be significant subjectivity in the valuation of private assets. FAs should engage external sources, such as Brokers, to provide or validate valuations before providing results to investment managers.

In addition to controls applied to the BAU processes, investment managers hold dedicated regional and global Pricing Committees on all pricing-related decisions:

- Approve valuation methodologies and market data sources from external data providers, brokers and dealers
- Oversee various product-specific pricing and regional pricing policies
- Oversee the underlying pricing procedures, including those relating to error handling and stale pricing

During exceptional market events, which would significantly impact asset valuations (e.g., the Russia-Ukraine conflict), the Pricing Committee might convene more frequently to support ad advise on pricing matters.

Controls on NAV

The cost of NAV errors can be high, with the investment managers obliged to report such errors to regulators if they are material. As such, NAV miscalculations present a reputational risk and might lead to losing investors' credibility and trust.

Most investment managers have put tight controls over the NAVs calculated by the FA, especially for actively managed funds. Agreement on NAV controls is typically determined at an asset class level and covered as part of the contractual terms with the FAs. The corresponding KPIs range from the time of NAV publication to the number of NAV-related incidents to the number of NAV errors. Investment managers should calibrate their respective NAV error thresholds in triggering the investigation, accounting for factors such as asset class mix, size of investments, and effort to conduct investigations vs. timeliness etc.

Shadowing should be considered with full NAV recalculations performed by investment manager's teams and compared against the 'official' NAVs calculated by FAs on a monthly / quarterly basis.

Typical NAV monitoring include:

Daily / Weekly	Monthly	Time-Agnostic
Check and monitor NAV movement relative to 2 consecutive periods	Perform full NAV recalculation, which involves calculating a parallel NAV to be reconciled against the "official" NAV provided by the FA	Perform price checks prior to NAV calculations and portfolio account calculations, for example: • previous day analysis • trade blotter review • stale / unchanged prices based on a pre-defined threshold
Perform holding and price review of the FA's records (i.e., market value change vs. price change)		Optimise NAV acquisition process (e.g., FA to share NAVs as soon as they are ready rather than consolidated NAVs for all funds)

Typical variation thresholds applied by investment managers to trigger NAV investigation

Asset Class	Typical Thresholds Triggering Investigation on NAV
Equity	20 - 30 bps
Fixed Income	5 - 10 bps
Cash	1 - 5 bps

Controls and oversight must be in place for the pricing and valuation process, given the downstream impact and the associated risk that NAV errors entail. Good practices include performing day-to-day pricing checks, monitoring NAV movement across two consecutive reporting periods and overseeing the valuation methodologies and pricing policies by the Pricing Committee. It is worth noting that the frequency of checks would vary depending on whether it is a private or public asset.

Reconciliations and break resolution

Holistic review of the reconciliation scope
Reconciliation is key in ensuring data consistency and integrity between the records held by investment managers and external parties such as FAs, brokers and custodians. With investment managers opting to outsource their reconciliations, they face the challenge of exercising the right level of controls and checks.

Further complications arise when investment managers deploy controls on an ad-hoc basis, often as a temporary response to past incidents or regulatory requests that may no longer be relevant. With this, investment managers can quickly lose sight and focus on reconciliations that are not value-adding, while failing to address gaps in the existing reconciliation scope.

Investment managers need to define the reconciliation scope holistically to ensure no gaps in the data need to be reconciled, taking note of the specifics related to each market and client base[1].

The nature of breaks and their resolution
Reconciliation breaks come in different types and sizes; not all are synonyms of errors. They may result from timing differences, decimal usage or reconciliation scope. As such, there is a need for investment managers to distinguish the "true discrepancies", and define the urgency based on the severity of business impact. Examples include breaks leading to valuation errors, NAV errors or significant settlement delays impacting the cash activity.

Once the "true discrepancies" have been identified, investment managers must ensure that FAs promptly and effectively address their resolution. This is often achieved by designating escalation points in specific teams, on both the investment manager's and FA's sides, to kick-start the co-investigation and resolution proactively. Other key controls include investment managers reviewing break reports from the FAs on a daily basis; performing sanity checks periodically and holding dedicated meetings with FAs to follow up on breaks.

[1] On matching and reconciliations, there might be expectations from some regulators in Asia (e.g., Japan, Taiwan, Thailand) for investment manager to strive for zero-tolerance.

Market best practices for consideration

Investment managers usually deploy the following controls to oversee reconciliations and break resolution undertaken by the FAs:

On the BAU processes:

- Ensure that all breaks are provided with appropriate comments and that a path to resolution is in place
- Hold weekly review meetings with the FA focusing on break resolution
- Consider prioritising high-valued aged breaks with shorter resolution timeframes
- Consider deploying dedicated processes to oversee high-risk areas, for example, sensitive markets or accounts that have a low level of tolerance for error
- Perform completeness checks over the number of securities and cash reconciliations performed by FAs
- Perform accuracy checks by re-running reconciliation samples and comparing the results to those provided by FAs

On the overall due diligence process:

- Validate the reconciliation procedure implemented by the FA, and any major subsequent changes
- Set up permanent read-only access to reconciliations ran by the FA to ensure data integrity

	Daily	Weekly / Monthly	Time-Agnostic
BAU	Perform completeness checks	Perform accuracy checks by re-running reconciliation samples	Ensure that all breaks have the appropriate comments and a path to resolution
	Review of reconciliation statuses	Hold weekly review meetings to discuss unresolved breaks	Prioritise high-valued aged breaks with shorter resolution timeframes
	Review of break report	Hold monthly committees on significant incidents and their path to resolution	Deploy dedicated processes to oversee high-risk markets and sensitive clients
	Review of critical items (e.g., aged breaks, breaks with considerable notional value)		
Due Diligence	N/A	N/A	Validate the reconciliation procedure and any subsequent major changes
			Set up permanent read-only access to the reconciliations

Reconciliations and break resolutions are essential in maintaining data integrity between the records held by the different parties. The ongoing challenge for investment managers and their FAs is identifying, prioritizing and resolving the "true reconciliation breaks" based on the severity of business impact.

Furthermore, given the increased complexity of the business landscape, investment managers are encouraged to review the reconciliation scope holistically and ensure that appropriate control and governance are in place.

Leverage technology to optimise fund administrator oversight

Common issues that investment managers face in their middle / back-office functions could be traced back to the plethora of manual activities and low-value tasks, either in processes carried out by FAs or controls exercised by in-house staff. Technology could help reduce the need for manual interventions and increase STP rates. The growing maturity in data and technology solutions represents an undeniable opportunity for investment managers to streamline and optimize their oversight and control processes.

Enterprise solution

Employing enterprise solutions allows more direct oversight and supports time-sensitive processes such as reconciliations. Historically, reconciliations used to be performed manually with heavy intervention from operational users. However, with the increasing maturity of technology, data extraction, matching, reporting on discrepancies and even the first level of investigations can now be fully automated.

Additionally, Enterprise reconciliation solutions can help automate NAV controls by retrieving data inputs from the Accounting Book of Records (ABOR) and other systems, conducting internal recalculations of NAVs and reconciling internal calculations against the FA's official NAVs.

Data management

A holistic data management approach is necessary to manage the complex data needs of investment managers effectively. This involves maintaining key data repositories (e.g., IBOR, ABOR), which serve as single sources of truth, as well as ensuring that consistent data can be used by both the investment manager and the FA. Maintaining sources of truth can provide several benefits for investment managers, including reduced time and effort required to reconcile data from different systems, increased alignment over the same data set and, ultimately, improved overall efficiency. Middleware solutions can also help to automate data feeds and transfers across systems and to streamline overall communication between investment managers and FAs.

Robotic Process Automation (RPA)

Manual tasks, such as checks and report generation, are the most obvious area that deserves immediate attention. Take the NAV file review as an example. Investment managers might need to perform eyeball checks on the count of NAVs where multiple sub-funds are involved. Another case is that report generation might require heavy data manipulation to copy and paste data from one file to another. In those cases, RPA can be used to retrieve NAV files from FAs, identify missing counts of NAVs and then automatically report back to FAs. It can also replicate pre-recorded actions on data manipulation to generate periodic reports in the desired format, and highlight cases for abnormal variances across two consecutive periods.

By implementing RPA, investment managers can enhance consistency and accuracy and, most importantly, free up staff capacity for high-value tasks, increasing overall employee satisfaction and productivity. Despite its relatively lower attractiveness in the market these days, RPA remains a strong tactical solution that investment managers and other financial services players should continue considering to streamline their BAU processes.

Workflow tool

Investment managers can consider further enhancing oversight through deploying workflow solutions, seen as enablers to strengthen collaboration with FAs. More specifically, workflow tools provide investment managers with a real-time and end-to-end view of activities executed by their FAs. When inefficiency or incidents happen, investment managers can rapidly pinpoint the root cause and intervene to redirect FAs to the right course of action. Moreover, workflows can serve as an Audit Trail and help track SLAs continuously.

> To summarise, investment managers must seize the opportunity presented by recent technological advancements and leverage the myriad of available solutions to streamline the oversight and control processes while liberating internal employees to focus on high-value tasks that drive business growth.

Looking ahead

As the industry evolves, investment managers must stay abreast of regulatory developments, keep up with client expectations and adapt to technological changes. To overcome these challenges while continuing to excel in their core business offerings, they must optimise their outsourcing model by strengthening controls over their FAs, transitioning to a business partnership model and harnessing the power of technology.

Reinforcing oversight and controls over FAs is critical to ensure compliance with tightened regulatory requirements. Investment managers should deploy a harmonised oversight model on a global level, while leveraging a cohesive oversight team working closely with IT. Commoditised and mature processes should be fully automated, such that capacity can be unlocked to concentrate on issues that matter most.

To transform into a business partnership model, investment managers should establish open communication channels with FAs, while embedding FAs' teams within their day-to-day operations. There is also a need for joint ownership over regulatory changes, especially for FA to proactively communicate the implications and changes required. This will lead to a more collaborative and effective collaboration, resulting in heightened scalability and transparency.

Moreover, investment managers should consider leveraging technology solutions with FAs to optimise operations and address pain points. Measures such as specialized Enterprise solutions, data management, RPA and workflow tools can help to enhance process efficiency, reduce operational cost and significantly, mitigate operational risk.

To remain competitive, investment management firms must adapt to evolving regulatory and client expectations. The key is to forge a transparent and collaborative relationship with FAs, underpinned by a holistic oversight framework and controls. Investment managers can foster a partnership of collaboration and innovation and continue to provide value to their clients while positioning themselves for growth and success in the years ahead.

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