

Operational challenges of information management in the fund industry

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An investment fund is, by nature, a financial product. As a product, it has to comply with regulations and is meant to be sold to customers. The description of its characteristics is therefore subject to legal and commercial obligations.



Information on the product has to be compiled and made available for communication and usage. How this content is handled is therefore critical to ensure that the correct information is distributed. Regulators are strengthening the legal framework on investment funds in order to increase transparency and thus improve investors' protection. The aim of UCITS, MiFid, AIFMD and PRIPS, to name but a few, is to not only better inform investors on the products but also to better inform professional players on the investors and their ability to invest in the products.

Providing information is key for two reasons: to comply with regulations and—as funds are commercial products—to gain visibility. Managing information has thus become a challenge for both fund management companies and the distributors having to place transactions on behalf of their customers.

Fund houses create, manage and close instruments on a daily basis. Managing and transmitting information is required for three different reasons:

- Regulatory filing to register and distribute funds on selected markets
- Commercial information to update distribution networks and investors on changes in the portfolio of products
- Marketing, to attract new customers

The operational challenges are numerous and start even before the communication as such.

The type of information to be managed is the first challenge, as no commonly used standards exist for the definition and scope of data which identify a fund. Some initiatives have been launched by the industry in an attempt to define and rationalise a range of relevant static data, like the Fund Processing Passport or FundXML. The former has never taken off and the latter is not used enough to have become market practice. This situation is due to the difficulty of automating the compilation and update of information on the one hand and ensuring that all data is available on the other hand.

Format of information is the costly challenge: some recipients demand specific formats to automate the integration process on their end

Some areas present a particular challenge, for example 'identifiers' such as fund codes (ISIN but also others: CSSF code, Qsip, WKN, etc.) or entity codes (e.g. LEI), which may not even exist.

Updating information is a second big challenge. Time to market is important as it affects the distribution of a new or updated product. Good coordination is required between the different parties involved in the process, such as lawyers, auditors, the promoter, the central administrator and of course the regulator, which grants authorisation. The objective is to ensure that data and documents are available as soon as possible.

Format of information is the costly challenge: some recipients demand specific formats to automate the integration process on their end. This is the case for distribution platforms, main distributors and data vendors. From a fund house perspective, this means having the technology or skills to be able to generate and send specific file formats, which can be very different from one to the other, either technically (xml, csv, etc.) or in terms of content (scope and layout of the information).

Beyond the content and format, a recipient list is tricky to manage as, for some products, specific versions of documents have to be sent (e.g. KIIDs in the local language of the countries where a fund is distributed) or, alternatively, not sent (e.g. AIF documents are sent to specific investors only). Access to information must remain under control, when sent or even just made available on a website, which means controlling access to a website in the case of the latter.

The integrity of disseminated information raises the issue of its usage. How it is used is based on the recipient's processes, which are out of the control of the fund houses. There is no guarantee that information sent will be correctly displayed and in a timely manner. Reuse of information, especially by data vendors, can be an issue as it means the sending of information is completely out of fund houses' control.

At the same time, distributors face similar kinds of challenges: documentation and information on the range of products they propose to their customers must be available and up-to-date. Having access to fund documents is often easy as fund houses usually publish these documents on their websites. However, collecting information directly from fund houses is often complex and costly, especially getting the latest updates, as fund houses are not always proactive in providing information. Having distribution agreements in place is often a better way to ensure that updated information will be received from fund houses.

Having direct access or receiving information is the starting point, but it is not always possible; using data vendors to get a feed for a full or partial portfolio is often considered a practical way of enriching one's database.

In all cases, the difficulty stems from the coverage of information, the technical format, the need to consolidate and to perform quality checks. These activities are required to:

- Provide information to the end customers to fulfill both the legal obligations to inform customers and the moral obligation to properly advise—the latter being too often overlooked as distributors recommend the products that bring in greater profits for them (through retrocession agreements with funds), new regulations on consumer protection are aimed at enhancing transparency or forbidding these practices.
- Ensure all relevant information is present to create a transaction likely to be accepted by the transfer agent of the fund, especially regarding the type of investors, countries of distribution, cut-off times, accepted currencies and investment restrictions.

Information management is a legal and commercial must on both sides of the chain that is handled through complex and costly processes due to the numerous counterparties involved and variety of formats, which can be illustrated by a simplified picture of the spaghetti model shown below:



This situation, as is often the case in the fund industry, results in opportunistic actors popping up to offer commercial services relating to data collection or management or dissemination or indeed all of the above, with the objective of making money out of these inefficiencies.

The multitude of service providers in the area is generating much more complexity as the range of services, the scope of information and the formats collected or disseminated are of course not the same. Customers buying these services have no other choice than to combine the services of several providers and interact directly with certain counterparties, which leads to further complexity and of course, costs. At the end of the day, these costs are always borne by the investors, either directly or indirectly through impacts on the performance of the funds and therefore lower return on investment.

Regulators have not yet focused on the area of information management to impose a limit on costs or even fix costs, like for example on cross-border settlements (T2S). The situation is not new and some initiatives aimed at standardisation have already been launched. The main problem with all past initiatives was usually the absence of any obligation that they be implemented, which prompted many to 'wait and see' and meant that they never gained the critical mass to become a market standard accepted and used by the industry. Hopefully this situation will change. Some markets have taken note of the situation and are trying to launch initiatives. For example in France, the industry is analysing the feasibility of putting in place a mandatory 'market referential' with fixed scope and format. This is a good step towards rationalisation and limiting costs in the industry, something which should be encouraged.

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