Global tax and investor reporting
A changing landscape

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The asset management industry is experiencing exponential growth with more investors, products, geographies and assets under management.

External forces, including investor expectations, global regulation and increasing attention from tax examiners, paired with internal pressures such as cost control and process efficiency, are driving the need and desire for operational change in the industry, posing clear challenges to in-house tax teams and service providers alike. Undoubtedly, both will be required to respond to these changing needs in new and innovative ways.

To better understand these needs, Deloitte commissioned independent market research to explore the asset management industry in a number of areas: the organisation and delivery of fund tax compliance and reporting, the challenges that the industry faces in this area, how decisions are made, the role of technology and the direction and pace of change.

29 key decision makers across 12 asset management firms of varying size and global presence were interviewed, and though each had a unique perspective and focus, there were three common drivers of need that materialised:

- To improve oversight of their fund related tax affairs and mitigate the associated risk
- To improve the efficiency of their internal processes to provide tax compliance and reporting
- To find ways to add value to the compliance and reporting process

Oversight and risk management

Better oversight and risk management were identified as priorities by almost all of those who were interviewed. The rapid expansion of the asset management industry through more funds and complex product offerings in more jurisdictions will stretch the capacity of an already lean workforce. High volumes of products and funds, multiple supplier relationships, complicated joint venture arrangements, and a relatively unsophisticated use of technology mean that they do not always have a broad-based and up to date overview of the funds under management. In turn, the associated tax compliance and reporting requirements, the visibility of current status in the reporting cycle and which external providers are used for each fund and function are all difficult to track.

Similarly, most asset managers would like to improve their fund tax compliance and reporting review process. Due to a lack of professionals and resources, most feel that they do not give sufficient time or attention to tax examination readiness and risk management. Interestingly, when asked about where they worry most about risk, all of the respondents were most concerned with investors, particularly related to reputational and commercial risk. Relationships with regulators and tax authorities were also important, but if given more resources, they indicated a definite focus on the investor first.

The volume and complexity of tax compliance and reporting work in the asset management industry is growing and this is expected to continue as more complex funds in new territories are established

Asset managers are consistent in wanting their providers to add more value over and above the day-to-day work. They are looking for their service providers to improve the efficiency of their own processes, be more connected regionally and globally, invest in leading edge technology as well as deliver better integration between investment structuring and tax compliance and reporting

Process efficiency

Many of those interviewed saw process efficiency as the key to helping them achieve better oversight. Improved internal processes might also help tax decision makers succeed against the backdrop of a rapidly increasing tax compliance and reporting workload on their limited internal resources. Process efficiency could also mean that a higher reporting volume might be managed faster and better, but for less cost per fund or other investment class. Not surprisingly, technology is perceived to play an important role, but with the lack of time and budget, tax teams appear to have little opportunity to invest significantly in technology and process improvement.

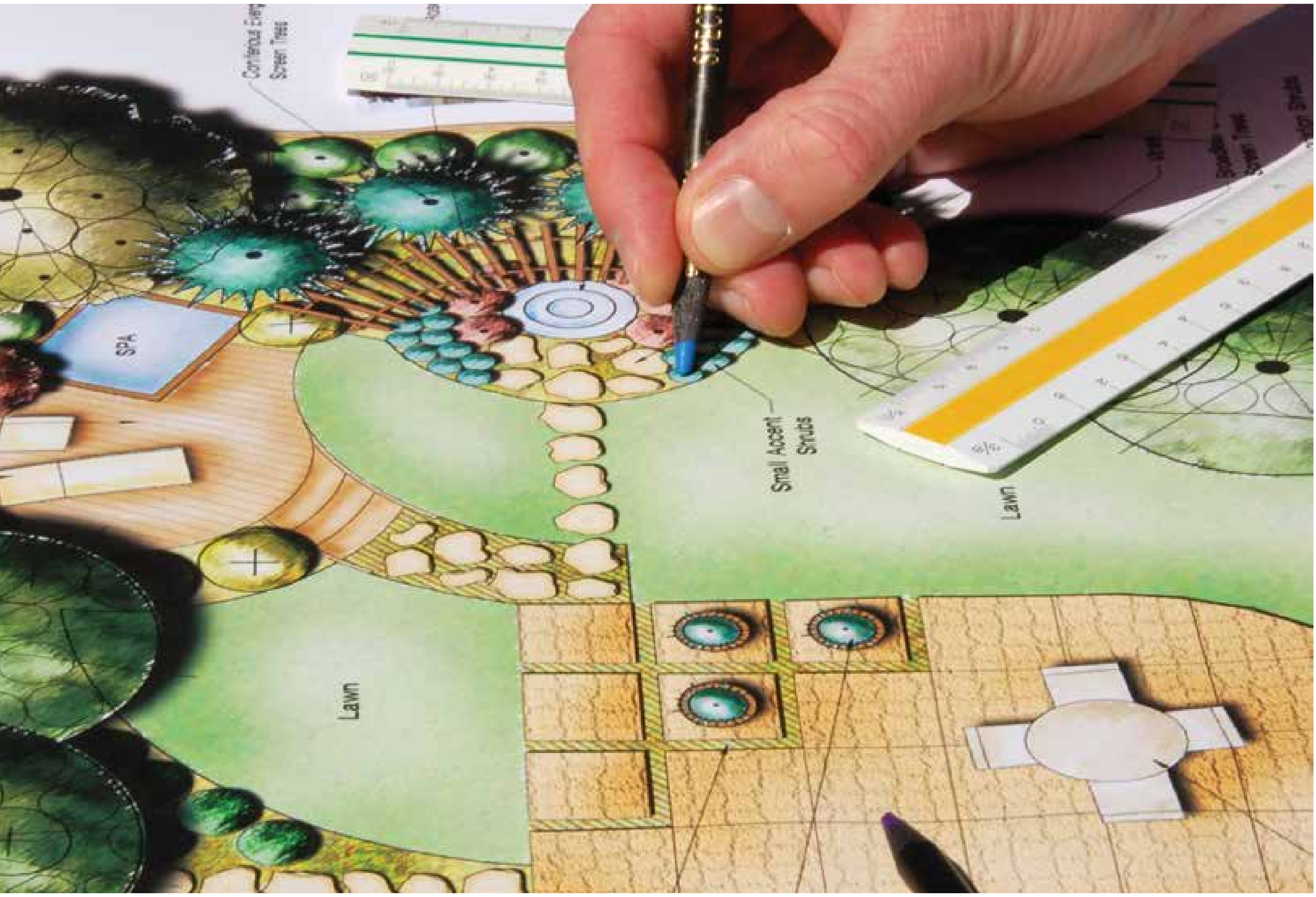
Value and performance

Asset management tax decision makers feel it is difficult for them to contribute to the bottom line in the same way as their corporate counterparts who can be measured by an effective tax rate and other metrics.

They do, however, express a desire to add value. To stay competitive, asset managers continuously need to launch innovative product offerings and more complex funds in new jurisdictions, and tax departments need to keep up with the pace of these developments. The real market opportunity, as tax departments see it, is in the area of investor reporting. By using the data that is available, fund tax departments may be able to give their investors better reports with more meaningful analytics and differentiate their products and services from competitors.

The desire to change and what it means for industry service providers

The desire to change various aspects of their tax compliance and reporting model to achieve the improved oversight, efficiency and value-add is clearly expressed in the research. Asset managers would like to make better use of technology, streamline supplier relationships, innovate their investor reporting and change the size and focus of their internal tax team, but there are barriers to change.



Many have already made improvements to their model and processes and although further improvements would be ideal, they are not first priority. Not only is it hard to make the case for investment in change, but tax teams do not appear to be pushed from above to change.

The default approach with respect to tax compliance and reporting is generally to outsource the work to Big 4 firms. These organisations are the only providers perceived to deliver the right level of confidence for investors and to provide sufficient global reach and breadth and depth of specialisation, particularly in the tax compliance and reporting of alternative fund types.

Lack of internal resources, the need for a high degree of confidence, difficulty keeping pace with regulatory change and a perception that external providers may be able to provide the work 'faster, cheaper and better', are the most often cited reasons for outsourcing.

Currently, the typical delivery model is largely devolved, with multiple supplier arrangements in place. Providers are often engaged at a local or fund level, rather than under a single central agreement.

One benefit of this model that was highlighted by those interviewed is that it is very flexible, allowing asset managers to switch work between suppliers if there is an issue with service or cost, tap into the right knowledge and experience where and when they need it, and add more work to existing service relationships as new funds, often in new territories, are launched.

Yet despite the barriers to change and the perceived benefits of multi-supplier arrangements, some asset managers are moving towards more formalised service relationships with providers and consolidating the number of providers as part of their quest to improve efficiency and reduce costs. Satisfaction with their service providers is reasonably high, but asset managers are consistent in wanting their providers to add more value over and above the day-to-day work. They are looking for their service providers to improve the efficiency of their own processes, be more connected regionally and globally, invest in leading edge technology as well as deliver better integration between investment structuring and tax compliance and reporting.

Conclusion

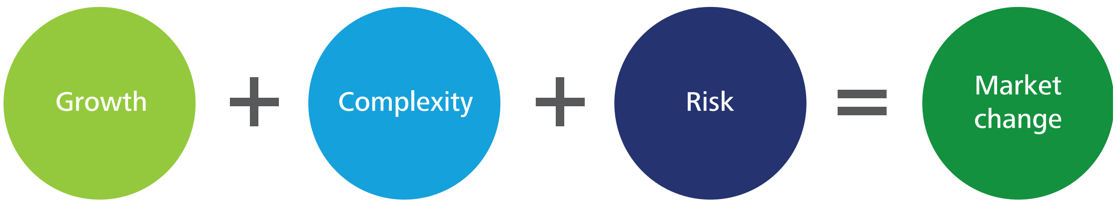
The volume and complexity of tax compliance and reporting work in the asset management industry is growing and this is expected to continue as more complex funds in new territories are established. Current operating and resourcing models deployed by asset managers are quite diverse and there does not appear to be a consensus about the leading model. However, tax decision makers in the asset management industry do appear to have clear and unmet objectives, and there is evidence of a desire for and direction of change.

Achieving change remains a difficult challenge for many of those interviewed although some asset managers are taking steps towards streamlining their tax compliance and reporting model, consolidating their outsourcing arrangements as well as investing in technology to help them pursue their goals.

In future issues of Perform*ance* magazine, we will be taking a deeper dive into the drivers and needs highlighted by this research, as well as examining how service providers can better advise their asset management clients to navigate change and thrive in this time of rapid growth.

To the **point**:

- Rapid expansion of the asset management industry may stretch capacity
- Increased regulatory scrutiny raises the stakes on asset managers' reputational risk
- Growth will likely come from increasingly complex products to accommodate diverse investors and investments
- Global expansion may provide new opportunities and challenges
- A desire for change is evident in asset management tax departments
- Improvement and innovation of investor reporting will likely continue to be a top priority



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