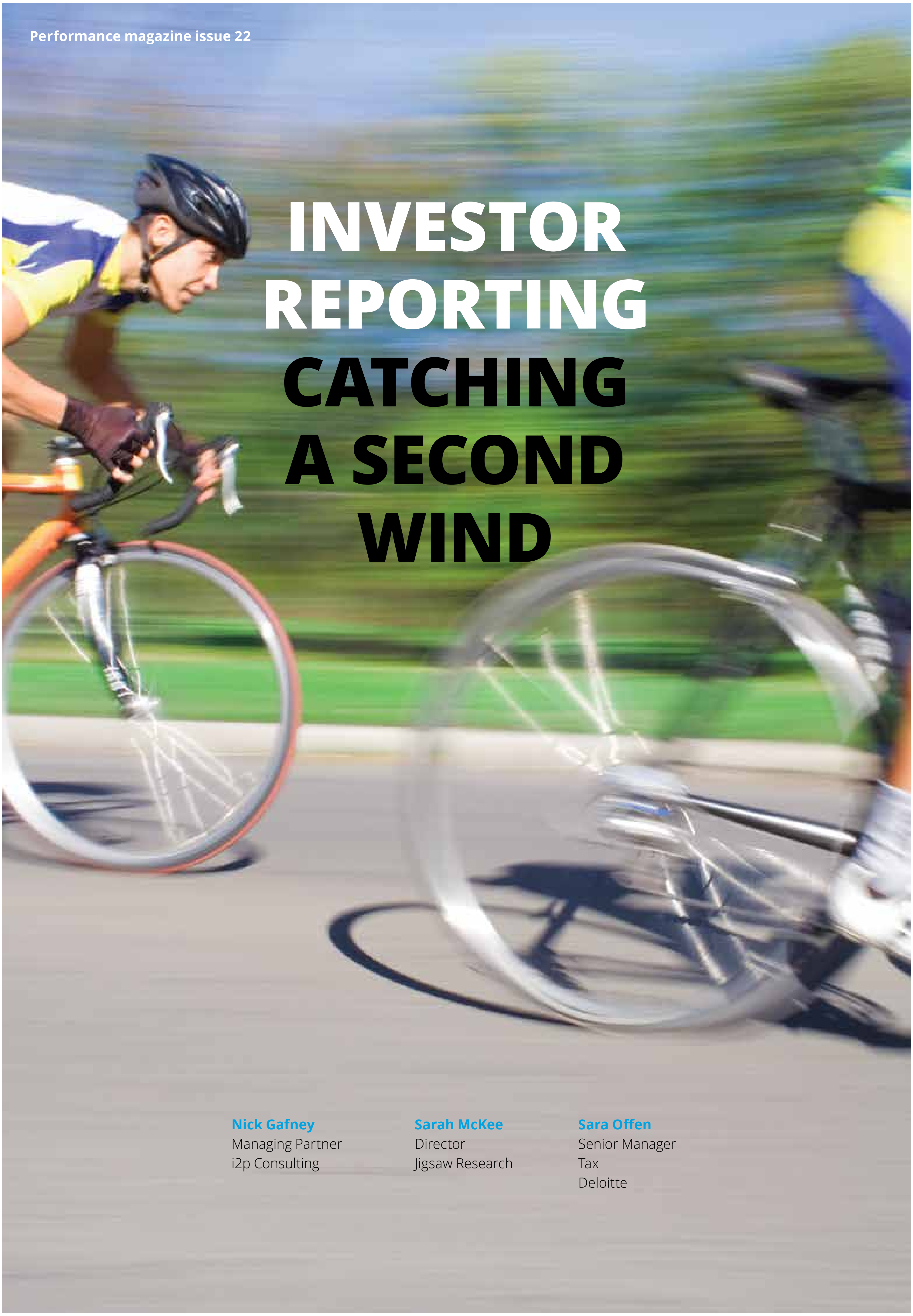

INVESTOR REPORTING CATCHING A SECOND WIND

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The global regulatory environment continues to challenge the asset management industry. For many fund and asset based tax teams this is a trying, and tiring, time. As regulators require more extensive information and more comprehensive investor reporting, those affected must not only meet compliance obligations and manage risk, but also deliver on investor demands and try to thrive in a highly competitive environment. So, with the OECD's Common Reporting Standard (CRS) now coming into play, can they summon up the energy for a second wind?

In the first half of 2016, Deloitte commissioned a follow up to independent market research with asset managers first carried out in 2013. Through a series of in-depth interviews, the aim was to update the picture emerging from the first study and assess asset managers' progress on the continua of risk management, process efficiency, and performance improvement.

When we surveyed the industry in 2013, three core drivers of need were pushing asset managers toward a more sophisticated business operating model:

1. **Achieving better oversight and managing risk**
2. **Improving process efficiency**
3. **Adding value and improving performance**

In short, managing risk was critical, but improvement and innovation of the investor experience was also at the forefront of their ambition. Though resources were squeezed and there were conflicting forces at play, the direction of change was clear, albeit at varying degrees of pace depending on the institution and impetus from the top.

Running to stand still

Since 2013, we have witnessed a more moderate approach to managing risk and meeting investor demands, due in large part to the changes in the global regulatory environment. Our research suggests these changes have had a significant impact on the direction and pace of change. Asset managers undertook massive efforts—stretching already stretched resources—to get ready for and achieve FATCA compliance. By the time the CRS arrived in 2016, the industry felt it was very much running to stand still.

Consequently, when it comes to achieving future visions for adding value and improving performance, ambition has been replaced with inertia.

In other words, what we now see is an industry experiencing a degree of regulatory fatigue. Coping is the new normal. Limited resources are mainly focused on the frequently cumbersome process of delivering the essentials: gathering the required data, achieving compliance, and attempting to manage often un-quantified risks.

Seen but not heard

With increasing regulation and the enhanced scrutiny this entails, risk has definitely risen up the agenda within the asset management industry, as has the importance of the tax function as a result. However, despite a sense of growing risk, along with the degree and nature of that risk—and in turn the appropriate level of mitigation—is not always well understood or defined.

Initially, the fear of non-compliance with new global regulation caused organizations to invest considerable resources in their initial response. Many in the industry established Project Management Offices (PMOs) to manage the many facets of FATCA in order to understand what was required, mobilize the organization, and try to locate and gather the requisite data. Now, with two years of reporting under their belts, many institutions are anxious to consider FATCA "done." There is a degree of hope from many that there will be tolerance from the regulators should any errors surface in the future. PMOs are being disbanded and tax departments are left with increased workloads without much increase in dedicated compliance resources.

While global compliance risk is still on the boardroom radar, this is very much on a "no news is good news" basis. Tax teams are expected to be seen and not heard. The expectation is that they should manage risk behind the scenes while also delivering investor satisfaction by structuring funds efficiently, keeping costs low, and maintaining the quality of reporting.

Expectations relating to the impact of CRS are mixed, with no clear consensus emerging as to the nature of the upcoming challenge. Sentiment is strongly linked to the degree of difficulty anticipated around collating the required account data, as well as the perceived imminence and severity of the threat of regulatory non-compliance. It is fair to say that with regard to risk the overall picture emerging from the latest research is not one of clarity and purpose.

Improvement or inertia

Because resources are stretched and the risks around FATCA and CRS are not fully defined or understood, most institutions suggest they do not have a clear sense of what "good" should look like in terms of process or resourcing models. As a result, current ambition is often restricted to simply being "good enough." Without clarity on risk and how to best manage it, there is evidence of a reluctance to make significant investment in making process "improvements" in case these are proved to be directionally wrong or even unnecessary in the future.

Many of those interviewed recognized that better use of technology and control of data could be a means to achieve more efficient and effective delivery, better oversight, and improved risk management. But, at present, the industry seems to be too mired in responding to today's compliance requirements to think about how to achieve wholesale organizational change.

Ultimately, the FATCA experience has shown that access to the data has proved key to an organization's ability to meet the information reporting challenge. This has forced organizations to focus more on their data but solutions are often patchwork and piecemeal by nature, rather than the planned and fully integrated systems that might be more future proof and deliver cost and value benefits in the longer term. So, without a clear vision of what "good" looks like—and with the significant internal barriers that often exist to more wholesale change—tax teams are very much making do and keeping their heads down. So long as risks appear to be being managed and minimal noise is heard in the boardroom, the business case to do more remains harder to make. The unanswered question at this stage is: What might break this inertia?

Back to basis

When first interviewed in 2013, many research participants felt under pressure to add value and improve the overall performance of the organization. For those within a more centralized organization there were certainly clearer opportunities to add value through cost minimization and investor reporting. However, with the increased focus on simply getting through the new regulatory requirements, in more recent interviews there was far less indication of this pressure.
Now, as a consequence of managing increasing volume with similar—or in some cases fewer—resources, it seems the pressure is more focused on meeting basic stakeholder requirements and avoiding regulatory issues. Generally, the industry now seems less clear on the commercial benefits of being compliant or the potential to find additional value from better systems and data. Because of volume and an ever-shifting landscape, the process of compliance is currently seen as just part of the cost of doing business.
Of course, this is not a universal view. As with process efficiency, some did recognize the benefits and potential added value that better data access and control might offer. But there is still evidence of a reluctance to even think about striving for this until they are able to return to a state of business as usual.

Looking for a new business as usual

As the sands of the global regulatory landscape continue to shift, it seems the asset management industry is somewhat stuck emptying its boots, rather than looking for the oasis. But does the choice between making do and realizing a transformational vision have to be so binary? Experience with some organizations suggests that there is a third way, founded on a change in mindset and a more pragmatic approach to envisioning improvement.

The mindset shift largely revolves around what constitutes "business as usual." As teams become fatigued by the constant pressure of complying with new regulations and the associated risk and reporting requirements, they yearn to return to a business as usual state, believing that this will free up the time needed to formulate a vision and plan for a better future state.
In fact, because change is probably the only certainty, shifting the focus to achieving a new state of business as usual that can accommodate and mitigate the impact of constant change is a more realistic and fruitful perspective. Inevitably, better command of process, data, and risk are at the heart of this.

Nonetheless, this still requires some kind of roadmap. The key is greater pragmatism and a more incremental approach rather than one of rapid transformation. While organizations should focus very much on tangible improvement rather than making do and mending, the roadmap must be defined and broken down into manageable bite-sized steps that can be realistically accomplished and will deliver benefit in their own right.

So, taking data as an example, the first step might be to simply locate all the required data, going through a methodical process to identify, map, and access all sources. Having delivered this, subsequent steps might consist of cleaning the data, securing the data, and ultimately to consolidating the data in order to provide a more robust platform to deal with future requirements.
A similar approach can be taken to identifying, mapping, quantifying, and mitigating risks. Through these incremental steps, an organization will naturally achieve some process efficiency and improvement that can then be recognized and expanded in a way that makes sense for that organization.

In conclusion

It might be fair to suggest that inertia is perhaps one of the bigger risks emanating from the current challenges facing the asset management industry. When the sheer weight of regulatory pressure leads to a strategy of simply coping, not only do opportunities to deliver value fall by the wayside but, by simply making do, organizations risk falling behind the curve and losing competitive advantage. Finding a second wind and breaking through the inertia with a more pragmatic, incremental path to a new and improved "business as usual" is perhaps the answer.

To the point:

- The global regulatory environment continues to evolve and expand rapidly, and asset managers must evolve with it to remain competitive in the marketplace
- Asset managers recognize that better data access and control could add significant value, but don't feel like they have the resources or time to take on such a wholesale change
- Currently, organizations are doing their best to achieve a state of being "good enough" and there is a feeling of regulatory fatigue and inertia
- To break the inertia, organizations should focus on reaching a new "business as usual" state by making a series of incremental changes that could, in the end, lead to something like the transformational vision to which they once aspired