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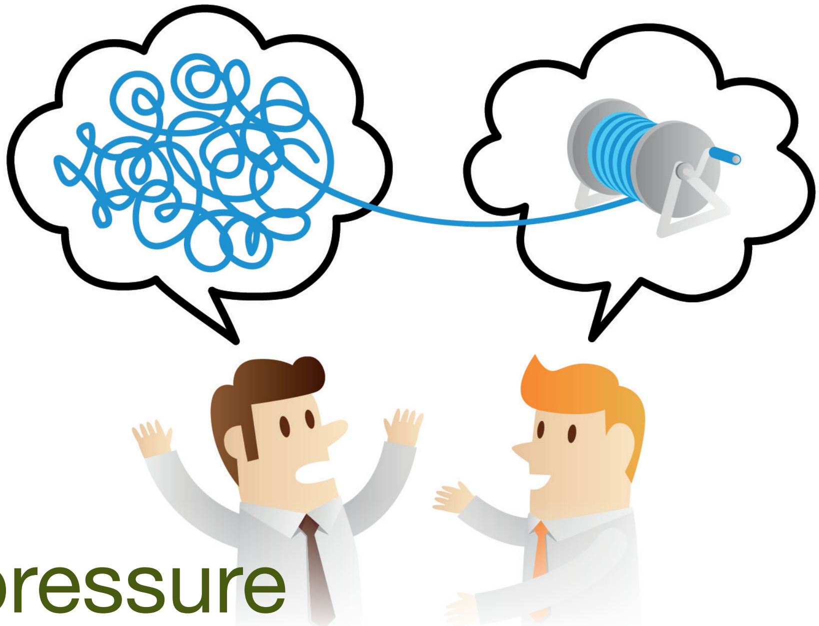

Under pressure

In an industry where inefficiency is no longer acceptable, the financial service providers that can provide cost-effective processes will come out on top, according to Mike Slemmer and Keith Parker of FundCount

What kind of inefficiencies do you see in the financial services industry? How have they changed over the last five to 10 years?

Mike Slemmer: The inefficiencies are essentially the same as they were years ago, but they have become more profound because of the advances we have seen in technology, the speed of the market, cost containment and the drive to minimise risk, especially since the crisis of 2008.

Those inefficiencies are, and have always been, around the fact that so many firms—including hedge funds, fund administrators, private equity and family offices—use spreadsheets, which are not secure or efficient. An array of manual systems further adds to the inefficiencies we see in the market. This means firms have to send data back and forth between these manual processes and hope that they can get their reports prepared accurately and quickly.

But this is not only about operational efficiency. There is also a risk element, both investment risk and cyber security risk. We have seen a dramatic increase in the need for firms to up their game and use an integrated system to take care of all their operational investing needs. Spreadsheets are inherently insecure, and your operations are insecure when you have to 'glue together' several systems. By having all accounting and mid- to back- office operations tools within one system, our users are able to significantly reduce cyber security risks.

Keith Parker: Being an integrated system, FundCount eliminates the need for hedge funds, fund administrators and others to use multiple systems, which can be expensive and unwieldy in terms of integration. So, in addition to reducing security risks, an integrated system delivers operational efficiencies that are not achievable with disparate systems.

On a more granular level, generating customised client reports can be a lengthy process with some vendors. The company would need to identify what the report should include and how it should look, and communicate with the vendor that will build it for them. There might also be an additional cost associated with developing the custom report.
Our reporting suite is customisable. It has an enormous number of moving parts that essentially allow clients to build their own reports, eliminating the pain points around time and cost.

Can this reporting system be applied to regulatory reports as well?

Parker: There are certain regulatory components that can be met in the system and there are others that currently cannot. For example, in the fund administration industry in Europe there is an Annex IV report that needs to be generated on the back of the Alternative Investment Fund Managers Directive. We do not support that at the moment, not because we don't intend to, but because we haven't seen much demand to date.

Slemmer: There is a whole array of regulatory reports in Europe that we will add to the system as demand increases. In the Americas, we address Internal Revenue Service requirements, regulatory reporting requirements from the Securities and Exchange Commission, the National Futures Association and, in Canada, the CRM II requirements. FundCount can provide reports for all of these.

A key factor of the service is not just the integrated nature of accounting and analytics, it is also that we have a tight integration with legacy spreadsheet systems. We can use those templates to accommodate client needs. For example, if a client has proprietary algorithms and functions, we can tightly integrate

Mike Slemmer
COO
FundCount

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those with FundCount. What this means for users is that highly complex spreadsheets and calculations can be used directly within FundCount and FundCount results passed back to Excel instantaneously. For regulatory reporting, many of these reports can be compiled and customised very quickly, even if the report is not a standard one in our system.

Do users have to overhaul their systems to benefit?

Slemmer: We are able to convert a new client in a way that doesn't disrupt their ongoing operation. There can be a pragmatic evolution of the implementation, which doesn't therefore necessitate any timeframe in which the company has to convert the information from spreadsheets into FundCount reports. The integration allows for a thoughtful, more pragmatic approach towards bringing data in and getting people trained. We can get data to and from the spreadsheets so clients can use them at month close even as they are implementing FundCount. Most users tend to bring those spreadsheet-based reports to FundCount because it is a more insecure part of the process and the workflow. However, some of our most advanced users continue to use spreadsheets for things like advance tax reporting, partnership distribution reporting and waterfall calculations.

Is it important to have a single view of operations?

Parker: Since the crisis, there has definitely been a considerable uptick in terms of the demand for data integrity, the transparency of data, and the availability of data. This actually started long before the crisis, but was definitely accelerated by it. It's simply a case of investors and any participants in the flow of information wanting more information and more granularity.

If we had had this conversation a decade ago, the reporting components in our system would have been of relevance and interest but would not have been as high on the list of priorities. Now, this is arguably the top priority because the demand for information and the transparency of information is so important from a regulatory point of view.

Another consideration is that there are so many different configurations of data required, particularly in the context of a family office, for example. You might find a scenario in which there is an absence of standardisation in terms of the types of reports that family office members want, such that reports need to be constructed on a bespoke basis. FundCount allows for this kind of bespoke reporting so the requirements of each family member can be met and addressed. Since the crisis, we have seen a significant increase in the demand for information and the granularity of that information.

Slemmer: Likewise, since 2008, shadow accounting for fund administration by hedge funds has skyrocketed. Hedge funds are looking for cost-effective and efficient systems to track and 'shadow' the work done by their fund administrator, and that is potentially the biggest regulatory impact of the crisis.

Generally, the market is under a lot of cost pressure. Efficiency translates to the need for better systems, more transparency, audit trails and operational controls, but all of this is also within an environment where there is a downward pressure on fees. Vendors with cost-effective systems that can meet these needs will be well positioned to succeed in this competitive market. **AST**

Keith Parker
Director of business development
FundCount

> Data integrity, transparency and availability are key