REGULATORY BURDEN CAN DRIVE BUSINESS PROGRESS

Marshall Saffer explains how to take advantage of new regulatory requirements

Today's fund manager is faced with daunting challenges: a difficult global investment environment; increased regulation; greater due diligence by investors; and intense competition. Despite the challenges, funds still must fulfil the mandate to generate alpha regardless of strategy, style or size.

Emanating from the business and regulatory requirements firms face today, data management has become a huge challenge for a variety of reasons, including report generation for internal consumers, outside investors and providing data to support and fulfil regulatory requirements.

Owing to what is seemingly nothing more than a regulatory burden, funds are being required to generate and report a tremendous amount of data about themselves. To the extent that this data can be used to analyse the business, funds stand to leverage the information for growth. Thus, there is a paradox: regulatory burden becomes business progress.

While data has increasingly become a key driver for fund managers, it has largely been seen as part of the cost burden of the firm, designed to fulfil regulatory requirements, support compliance or to generate standard reporting, but this does not have to be the case.

Data in and of itself needs to be structured before it is interpreted for regulatory, operational or business purposes. Imagine a situation where these data sets, regardless of source, can be "translated" and "talk" to each other in any combination necessary for a manager. Suppose, for example, one turned the prism of Form PF and other regulatory reports and had all that information available not solely to assure regulators that there was not undue risk, but as a mechanism for understanding the position of the firm and as a basis for developing strategies and ideas for further growth?

The paradoxical effect of the regulation is that it can force firms to look at their business in a new way. Seen as a means of business control and growth, regulatory reporting data sets are the kind of analysis a firm may want to have even in the absence of an affirmative mandate to have it.

PMs, CFOs, and COOs can take this broader view that moves beyond the current approaches to this data. Here, data moves well beyond being used for regulatory reporting and is used to support the firm and investment thesis in decision making. Data is out of storage and is actively mined to inform the manager and aid in performance. Data moves from being a spend to an investment. It is a response to the question: what more can I do with this data, now that I have it accumulated? Can it tell me anything? The data question is no longer a necessity with an attendant cost and product solution, but a real-time monitoring tool that actively aids in how managers invest.

This model is enterprise- rather than task-oriented. It marries and moves the data to support the investment thesis. It takes the vision of each separate manager, and as would a blacksmith, "trues" the data and the trading strategy for a perfect fit. By mirroring the thought process of the manager's investment thesis and forging it into the optimised data set, the portfolio management equation is enhanced and the data solution is customised to the firm, providing incisive analysis.

Such a model is not a product but addresses the business and management issues related to performance and growth. It is not about having data just for reporting. The investment thesis is enhanced by moving beyond the collection and warehousing of data by applying tools that enables managers to act.

Data in whatever form managers require is essential as they run their business. Data properly aggregated and delivered, both informs and confirms decisions.

The more information available, and the closer that information (and analysis) is to decision-making in real-time, the better the decision. What is needed is to marry all the data resident in the firm in risk, accounting, market data, trading and historical performance to the investment thesis, and leverage it in decision focus making, rather than leaving this information siloed. Data needs to be transformed from transactional views of the world into meaningful information. As the architecture of storage and use forms the fundamental basis for reporting, the following is the baseline that firms will need to have in place: enterprise solution for data aggregation and storage; full data time series and audit; accounting systems, market data and risk vendor adapters; performance & attribution calculator; portfolio analysis and statistics; real time alerts and oversight; and automated reporting and distribution.

So perhaps funds can welcome the paradox of increased regulatory reporting and be ready not only to "check the compliance box" but take a deep data dive and with hard numbers work to understand what they are doing, and what they can keep, change, or jettison as they seek to build alpha. Progress is never a burden, even when birthed in paradox. ■

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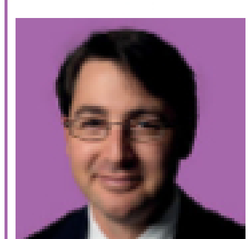

Marshall Saffer is COO of MIK Fund Solutions where he oversees business development, relationship management and daily operations.

Prior to joining MIK, he held senior management positions at several industry service providers including Viteos Fund Services, SS&C, DST International and Financial Models Company. For the past 16 years, he has provided solutions to many of the largest hedge funds and asset managers bringing a deep understanding of operations and a strong technical background.

Marshall is a graduate of Connecticut College in New London, CT with a B.A. in Psychology.