



WHITE PAPER

FUND ADMINISTRATION

**THE GREAT FUND ACCOUNTING  
GAMBLE: WHY BACK-TO-FRONT  
PROCESSING IS THE ONLY SAFE BET**

TONY WARREN,  
HEAD OF BUY-SIDE STRATEGY, INSTITUTIONAL AND WHOLESALE, FIS

# Contents

- 1** Introduction: Fund administrators under pressure
- 2** 2020 vision – a new world of asset management
- 3** Get more from your data – without duplication  
The data masters – build on the strengths of fund administration
- 4** Are you using the sharpest ABOR tool?  
The vendor oversight opportunity  
Integration in practice – the benefits of a combined ABOR/IBOR
- 5** ABOR essentials – speed, accuracy, strength and efficiency  
Conclusion: Can you afford to get fund administration wrong?



**TONY WARREN**  
AUTHOR

---

## **Introduction: Fund administrators under pressure**

Across the global investment environment, efficiency has long been a big deal for fund administrators. Not only are budgets constrained, but their asset management customers are also demanding more for their money.

The signs are, however, that the efficiency drive has only just begun. According to new research, the need to eliminate wasted effort and duplicated activity will only intensify in the coming years, calling for an altogether more streamlined approach to back- and middle-office operations.

Innovation will be important as fund managers, administrators and technology partners work together to develop new, more integrated platforms. But speed, accuracy and reliability are at a premium, too, especially when it comes to critical processes like striking the net asset value (NAV). So, any fund administration solution must also be robust and, above all, proven – with no time for failed experiments.

## 2020 vision – a new world of asset management

Changes to the asset management industry are creating a range of new pressures for fund administration. In turn, these challenges are already starting to redefine the relationship between asset managers and servicers.

To see how that relationship might look by 2020, FIS teamed up with **Longitude Research** to carry out a global survey of management executives in the fund administration profession. For additional qualitative insights, Longitude also interviewed more than 15 leading asset managers, fund administrators and other subject experts.<sup>1</sup>

Clues to the industry's future state emerged thick and fast, revealing a business model under threat for traditional fund administrators. According to the survey, 39 percent of administrators expect fees to fall between now and 2020, while 82 percent believe competition from another sector is likely.

The growing complexity of the global investment environment also surfaced as an important issue. For, as mainstream asset managers diversify increasingly into alternative asset classes, a full 33 percent of administrators cannot yet cater fully to multi-asset products.

Something, in short, has got to give, as administrators are effectively required to deliver more for less. And for a vast majority the answer lies in technology, with almost nine in ten expecting to have to invest in new systems before 2020.

Technology solutions will, of course, be integral to automating standard processes. But their key role goes beyond the core benefits of automation: cutting costs, improving scale and increasing operational efficiency. Most notably, technology can also help tap into a rich source of value that administrators have in abundance: data.

Fund administration data has never been so in demand. "What the regulators want is more and more data, and we have to provide that for our clients," says **Peter Cherecwich, head of Global Fund Services at Northern Trust**. "But, potentially more importantly, investors themselves are doing more and more due diligence on providers. It's no longer good enough for asset managers to simply promise a return from their black box."

**Mike Tumilty, director of operations, Standard Life Investments**, adds: "The investment management community has a constant thirst for good quality data. Such a huge part of that is going to come from your fund administrator, so they can be a massive enabler to the asset management community."

What the regulators want is more and more data, and we have to provide that for our clients. But, potentially more importantly, investors themselves are doing more and more due diligence on providers. It's no longer good enough for asset managers to simply promise a return from their black box.

PETER CHERECWICH, HEAD OF GLOBAL FUND SERVICES AT NORTHERN TRUST



<sup>1</sup> FIS AND LONGITUDE RESEARCH, FROM COAL TO DIAMONDS: 2020 VISION – THE FUTURE FOR FUND ADMINISTRATORS, 2016

## Get more from your data – without duplication

Data is not only at a premium, it also provides a key opportunity for fund administration to reduce duplicated effort on their clients' behalf. This is especially true in the middle office and most specifically through the investment book of record (IBOR).

Increasing numbers of asset managers have looked to their own trade and transactional data to create an IBOR, which in turn gives them a timely, comprehensive view of their positions.

As well as supporting front-office decision making, the IBOR has increasingly been used to drive a range of additional, middle-office services that also require traded positions, including risk management, compliance, collateral management, valuation, financial reporting and performance measurement and attribution.

**Theresa Hamacher, president of Versanture Consulting**, says: "A lot of asset managers are outsourcing middle-office services, which are the areas that interface with fund administration. They are looking to revamp those areas, which puts the spotlight on their relationship with the fund administrator."

The value of the IBOR for fund managers is in little doubt. But in assembling its own IBOR, the middle office is effectively overlapping with the activities of the back office, which will simultaneously be running its own accounting book of record (ABOR) on the same set of transactions. And the question is: Why run both systems independently when data from the ABOR could efficiently feed both?

And the question is:  
**Why run both systems independently when data from the ABOR could efficiently feed both?**

## The data masters – build on the strengths of fund administration

As well as reducing the duplication of tasks and processes, the ABOR-fueled IBOR can help ensure data integrity. Data, after all, is the fund administrator's greatest asset – and much is invested in maintaining its quality to the highest standards.

In today's fund administration market, the top 13 full service providers act as guardians of more than \$45 trillion of institutional and accounting data.<sup>2</sup> To service the industry effectively, that data undergoes a series of stringent checks on asset managers' behalf to make sure it is fit for purpose: able to meet regulatory requirements, feed the ABOR and support accurate, timely NAV calculations.

What's more, the technology already exists to turn ABOR data into a real-time instant view of investment data for the asset manager. This can provide the middle office with a full IBOR, plus the opportunity to wrap around any number of services, in one easy sweep: a single process, generated by a single source of data, with no duplication. And with a strong track record, it's a proven approach.

With personal, positive experience of this operating model, **Gary Tenkman, managing director of Ultimus Fund Solutions**, says: "We were looking to offer middle-office services to our clients. Because of the investments FIS has made in our fund accounting and administration system, we are able to leverage it as our processing platform of choice for these and other specialist fund administration services."

We have an unwavering commitment to providing our clients with operational efficiencies that allow them to spend more time managing and growing their funds. Harnessing our provider's technological expertise and products is a natural extension of this dedication, and we look forward to helping clients further enhance the management and monitoring of their investment vehicles.

**ANDREW ROGERS,**  
CEO OF GEMINI FUND SERVICES



<sup>2</sup> SOURCEMEDIA, 2016 MUTUAL FUND SERVICE GUIDE, 2016

## Are you using the sharpest ABOR tool?

As a mature feature of the fund administration toolkit, and source of trustworthy, validated data, it makes perfect sense to extend the back-office ABOR into an IBOR for the middle office.

Less logical are various attempts to do the opposite. The IBOR is a relative newcomer to the investment accounting landscape. But around the world, there has been a growing trend to use an IBOR to create an ABOR – and, in turn, support back-office services for fund administration, including NAV striking.

Several failed, expensive attempts to work this way around clearly show that it makes no sense at all. Significant amounts of both time and money have been spent on the promise of full front-to-back processing by IBOR providers, but typically resulting in a sub-standard ABOR.

The fact is that data originating from the IBOR hasn't undergone the same rigorous checks as the ABOR – but will have been affected by the varying nuances of the global market and the different currencies, regulatory regimes and tax laws that comprise it. Converting these positions back into ABOR data for NAV calculations is a complex challenge that today's asset managers can ill afford.

IBOR-centric vendors have even left customers to assemble the components themselves – and piece together a framework that was ultimately unsuitable for an ABOR. The initial price point of this approach may seem attractive, but the resultant waste of dedicated resources, time, dollars and output suggests that the ultimate cost is a far uglier truth.

## The vendor oversight opportunity

In contrast to the recent crop of IBOR-to-ABOR experiments, the ABOR has been steadily proving its worth as a strong foundation for both back- and middle-office data.

With a growing regulatory requirement to increase vendor oversight, some of the world's largest and most progressive asset managers already use ABOR processes and technology for IBOR purposes – rather than relying on a lightweight IBOR system. Should their service provider fail, this gives them a robust back-up "shadow" solution for investment accounting and NAV calculation.

A number are choosing to deploy a hybrid model – running their own books of record for mature markets, for example, while outsourcing to external providers in emerging markets. While this helps them run internal processes effectively, it also makes it essential to replicate administration processes on a T+0 basis. An integrated ABOR/IBOR provides the ideal solution, allowing asset managers to use the same data for T+0 and T+1 calculations and avoid duplicating and normalizing data offline.

## Integration in practice – the benefits of a combined ABOR/IBOR

As a hypothetical example, let's say that an asset manager with around \$20 billion in assets under management deploys four investment strategies across two investment products: running five mutual funds and 75 separately managed accounts (SMAs).

Typically, a manager of this kind might outsource its back-office services to a fund administrator, which in turn would process trades on a T+1 basis to maintain a traditional ABOR. Due to the latency of the holdings, this ABOR's data would be of little value to the front office. So, at the same time, the manager's middle office would process both its SMAs and mutual funds on an in-house IBOR, to create a T+0 view of its holdings, support investment decision making and feed into order management and trading systems.

With an integrated ABOR/IBOR, a fund administrator could instead support the full range of middle- and back-office services on the manager's behalf – and provide both T+0 and T+1 views of holdings from one accounting platform and a single source of data. As a result, holdings data will be both timely and in sync, and transactions need only be processed once. That means just one set of processes (and costs) per trade for pricing, corporate actions, custodian reconciliation and performance measurement.

In fact, it's fair to say that 75 percent of administration activity for all fund products – from mutual funds and SMAs to hedge funds and private equity – is exactly the same and can therefore be covered by a single operation starting with T+0 trade processing. Only the remaining quarter will vary according to the product involved. For example, mutual funds must factor capital stock and expenses into daily NAV calculations, and hedge funds need expense allocations to strike a monthly NAV.

We were looking to offer middle-office services to our clients. Because of the investments FIS has made in our fund accounting and administration system, we are able to leverage it as our processing platform of choice for these and other specialist fund administration services.

GARY TENKMAN, COO AND MANAGING DIRECTOR OF ULTIMUS FUND SOLUTIONS



## ABOR essentials – speed, accuracy, strength and efficiency

It's clear, then, that an IBOR and ABOR can work well in combination, but with the ABOR always as the starting point.

A purpose-built ABOR should provide four key capabilities:

1. **Rapid, accurate NAV calculation** – collecting all the underlying components, scrubbing prices, checking and verifying accuracy and (where high volumes are involved) an element of stress testing.
2. **An integrated general ledger** – following NAV calculation, the general ledger must be updated. Many IBOR systems don't have a general ledger, making things even more complicated when there are reversals and cancellations.
3. **Efficiency** – rather than in batches, where checks are made at intervals, ABOR processing should be iterative, with issues flagged up and addressed in real time via dashboards and analytics.
4. **Track record** – giving evidence of behavior with peers. Global asset managers have to account for complex jurisdictional requirements, multi-class, multi-book, multi-tax and multi-asset group intricacies, but most of all must satisfy their fiduciary obligations to investors with testimonial proof and assurances

In turn, the backbone of the ABOR must be provided by a strong fund accounting system, and technology provider.

**Bryan Yates, director of fund accounting and operational development of Jackson National Asset Management**, says: "Top tier technology and best-in-class systems are at the forefront of our strategy in Fund Accounting and Operations. We continue to introduce automation to our processes in an effort to gain efficiencies and minimize risks. Freeing our accounting team of manual processes has allowed us to focus more time on analytics and research."

"We have an unwavering commitment to providing our clients with operational efficiencies that allow them to spend more time managing and growing their funds," continues **Andrew Rogers, chief executive officer of Gemini Fund Services**. "Harnessing our provider's technological expertise and products is a natural extension of this dedication, and we look forward to helping clients further enhance the management and monitoring of their investment vehicles."

And where NAV calculations are concerned, the fundamental requirement for back-office expertise strikes again. Optimizing the NAV window takes experience, a strong track record and a continual drive to improve and refine the process.

## Conclusion: Can you afford to get fund administration wrong?

The final question is: In volatile, highly regulated markets, who can afford the luxury of gambling on unproven solutions? As well as having no track record of success, IBOR-to-ABOR initiatives have largely proved nothing but expensive.

Much is at stake here. This is not just a matter of being able to strike a NAV, it's about being able to strike it correctly, day after day, in a timely fashion: consistently managing high volumes of data in a short window maybe multiple times a day. Not being able to do so accurately, and with high levels of automation creates both risk and expense, where bodies are thrown at the problem and expenditure escalates.

At a time when every firm faces budgetary constraints, fund administrators have a duty to their clients to keep waste to a minimum and provide smooth, efficient processing support. With duplicated processes and an expensive gamble, you may still be able to strike a NAV – but, ultimately, at what cost?

Top tier technology and best-in-class systems are at the forefront of our strategy in Fund Accounting and Operations. We continue to introduce automation to our processes in an effort to gain efficiencies and minimize risks. Freeing our accounting team of manual processes has allowed us to focus more time on analytics and research.

**BRYAN YATES**, DIRECTOR, FUND ACCOUNTING AND OPERATIONAL DEVELOPMENT, JACKSON NATIONAL ASSET MANAGEMENT



With duplicated processes and an expensive gamble, you may still be able to strike a NAV – but, ultimately, at what cost?

### About InvestOne

InvestOne is a real-time, modular investment accounting and administration system that lies at the heart of our Investment Operations technology suite. It offers robust and scalable portfolio accounting capabilities to help you improve operational efficiency, support global expansion and access multiple views of account structures in real time. Banks, institutional asset managers and third-party administrators around the world rely on InvestOne to control and monitor their portfolios.

### About FIS' Investment Operations

FIS' Investment Operations is a global suite of products and services for asset managers, institutional investors, and traditional and alternative fund administrators. Investment Operations supports the entire investment process, from portfolio management, risk management and compliance to investment accounting, transfer agency and client reporting. Combining deep functionality with broad business process management capabilities, FIS helps investment firms manage complexity, increase efficiency, and respond quickly to changing business and regulatory requirements.

### About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 55,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit [www.fisglobal.com](http://www.fisglobal.com)

The information contained in this document is provided for informational purposes only and does not purport to be legal, tax or professional advice. This document is provided on the understanding that its content is based on information available as of the date of publication and is solely intended to promote discussion and inquiry on the subject matter. The individual circumstances of a firm should always dictate the actions, if any, a firm takes with regard to the subject contained herein and FIS will not be held responsible for the results of any actions a firm may take in reliance upon or as a result of reading the information in this document.

 [www.fisglobal.com](http://www.fisglobal.com)

 [twitter.com/fisglobal](https://twitter.com/fisglobal)

 [getinfo@fisglobal.com](mailto:getinfo@fisglobal.com)

 [linkedin.com/company/fisglobal](https://linkedin.com/company/fisglobal)