



***Focus report:  
regulation***

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# Rays of hope amid the gloom

## Regulation

The buyout industry has been able to dodge the bullet from Europe... so far – pages II-III

## Sponsored Q&A

Investor demands, the regulatory environment, and consolidation in the sector – pages IV-V

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# Pleasing investors and the regulators: how fund the administration industry can help

In a sponsored Q&A session, Marina Lewin, global head of business development at fund administrator BNY Mellon Alternative Investment Services, talks about investor demands, the evolving regulatory environment, and consolidation in the fund administration sector



### What are the biggest challenges facing the fund administration industry at present?

The biggest challenges facing the fund administration industry are:

- An evolving and uncertain regulatory environment;
- Helping clients meet the increasing demands of institutional investors for transparency, alignment of interest, and governance;
- Increasing need for true global service model;
- Providing clients with the tools to monitor administrator workflow and controls;
- Automation of data input.

### Are investors and general partners becoming more demanding of fund administration firms? If so, in what way?

Yes, investors and general partners are becoming more demanding. To keep up with investor demand for transparency, fund administration firms will have to work with both investors and general partners to provide detailed and meaningful reporting in a secure and easily accessible manner. Leveraging administrator scale, investors and general partners will increasingly rely on the administrator's infrastructure for storing data, documents, reporting, and communication.

### When did you notice this trend emerging?

We noticed the trend for greater transparency in data and reporting emerging three to four years ago based on the requirements and demands of our clients. This trend was accelerated, however, during the credit crisis and has remained as a result of an uncertain market environment. To counter this concern, we have designed a product that provides a flexible solution for both the general partner and limited partners and offers access to information that can satisfy their unique needs.

### Is there a certain destination that is likely to become more popular for fund administration? Why?

Because of its relative strength as a regulatory regime, Luxembourg is a location that is most likely to become more popular for fund administration. Although it is a highly desirable destination for institutional investors, Luxembourg can be a costly service centre to support from an administration perspective. Another popular alternative that we are seeing more of are the Channel Islands.

### What measures is BNY Mellon taking to prepare for the oncoming wave of regulation?

BNY Mellon continues to engage with regulatory authorities on a global basis, work together with industry

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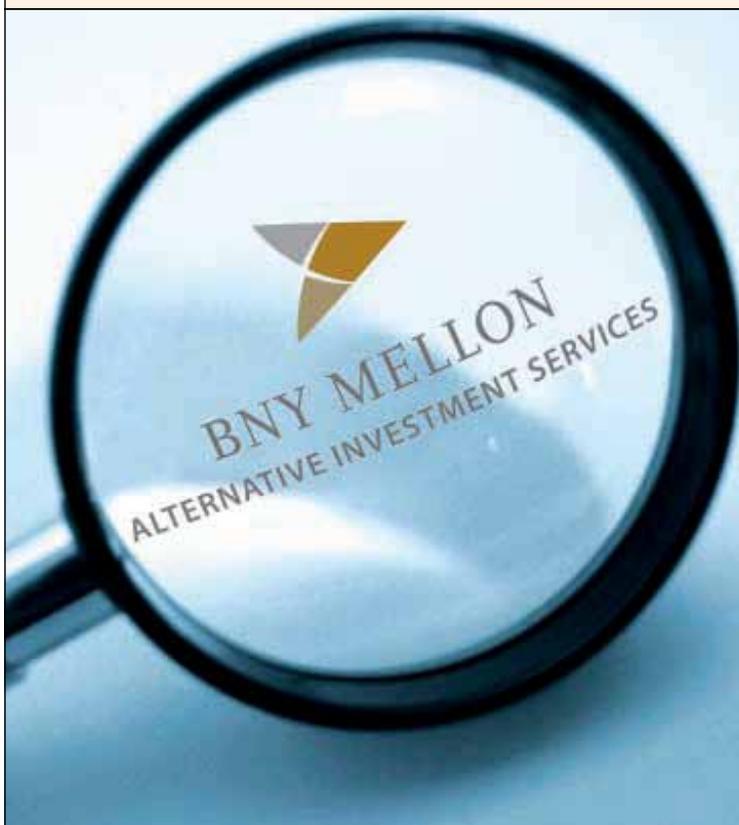
Marina Lewin





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consolidation in the fund administration space. Both general partners and limited partners are increasingly concerned with their administrator's capital strength, sustainability, and commitment to the specific demands of Private Equity fund administration. Similarly, there has been an increase in the breadth of services that general partners look to outsource, so the administrators that have the scale and broad product capability will continue to have an advantage.

### **In order to raise additional capital, what extra measures will private equity funds have to take?**

Consistent with the Institutional Limited Partners Association (ILPA) guidelines, general partners will have to work with their limited partners to incorporate terms that strongly align GP and LP incentives and that offer the transparency increasingly demanded by limited partners. Fee structures, including distribution waterfall calculations, will be one mechanism - particularly addressing the desire for an aggregate or 'European' waterfall model versus a deal by deal, more front-loaded model. In addition, general partners may be required to report more portfolio company operational and financial data. It is unclear how limited partners will synthesize this information, but access to it is and will be important to satisfy boards and constituents.

### **Are an increasing number of private equity firms approaching firms like BNY Mellon to help with fund administration? Do you have a service you provide which is most popular?**

Yes, we have seen a significant increase in the number of private equity firms and limited partners approaching us about administering their funds or private equity investment programmes. In addition to our core services of accounting and reporting, investor servicing, and tax servicing we are also experiencing an interest in cash management. This includes the effective execution of cash movements for investments, fee payments, as well as facilitating the investor transaction process (capital calls and distributions). We have also witnessed a marked increase in inquiries from institutional investors like private equity funds of funds, pension funds and sovereign wealth funds.

### **Where do offshore and onshore fund administration differ?**

Years ago, there were more significant differences between offshore and onshore fund administration. Today, with the globalisation of the administration service model, the decision depends not on onshore versus offshore, but rather on the specific domiciles of choice. If they have not already, the sustainable providers of fund administration will be forced to embrace a fully global model in order to support administrative requirements of funds and fund stakeholders regardless of legal entity domicile, location of investors, or location of deals.

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associations, and participate in industry conferences, thought leadership events and knowledge sharing initiatives. We also work closely with our technology provider as part of a broad, strategic relationship, which allows us to collaborate with them to address the evolving regulatory environment and implement the technological requirements to anticipate and fully meet the demands of the market. In addition, we have a dedicated control team within our business. This control team is focused on translating the potential impact of regulatory initiatives into our workflow processes and procedures. Finally, we continually engage our peers in the industry and maintain an open dialogue to ensure that, collectively, we meet the needs of clients and the industry.

### **How will the AIFMD affect the private equity industry? Will it be costly for firms?**

Designed to broadly focus on increasing investor protection and reduce systemic risk, there is still uncertainty in how the AIFM Directive will be implemented and therefore affect the private equity industry. While AIFMD will present both challenges and opportunities for the players in the private equity industry, there are still key issues to be determined around the definition of leverage and depositories, some of which may be costly to private equity firms. As an administrator, we are closely monitoring the progress and designing a future strategy and

operating model to ensure that we have the appropriate framework and systems in place.

### **Talking to fund managers and investors, what are likely to be the biggest challenges for private equity in 2012?**

One of the biggest challenges will be the evolving regulatory environment and building the infrastructure to support regulatory requirements or establishing the requisite outsourcing partnerships. Other challenges include accessibility to quality deals, depending on sector and strategy focus as well as exit strategies. The latter is particularly important because if managers are unable to exit deals and return capital to investors, those investors will have less capital to recommit to subsequent funds. Further, many large limited partners have seen their assets dwindle due to general market conditions over the last few years. While they may be holding steady in their commitment to private equity, the overall pie is now smaller, resulting in fewer dollars to invest. In addition, general agreement on fees and other terms may be more difficult as the pendulum of power is still very much on the limited partners side.

### **Is there a place for larger and smaller fund administrators in the market? If so, what are they likely to specialise in?**

We have seen, and will likely continue to see,



# You didn't get into Private Equity to focus on fund administration. We did.

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## Who's helping you?

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At BNY Mellon, we have a passion for helping private equity funds navigate fast changing industry requirements and the growing transparency demands of investors. Our experts offer access to some of the most advanced administration systems and procedures — helping you be more responsive to your constituents and more focused on your challenges.

To get your copy of BNY Mellon and PEI Media's Thought Leadership White Paper, *Private Equity Faces the Future: Candid Views from the Market*, go to [bnymellon.com/privateequity](http://bnymellon.com/privateequity).



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