



Evaluating your Oversight Program in the Distributed Recordkeeping Environment

By: Michael Mitchell

With the growth of subaccounting, the Transfer Agent (TA) is no longer the single platform for an asset manager's data. The core shareholder recordkeeping activities and data once centralized with the transfer agent are now conducted through multiple distribution partners and sub-TA platforms—and is referred to as “Distributed Recordkeeping.” This evolution has increased not only the amount of data available, but the number of sources. This, in turn, has increased regulatory interest in intermediary oversight effectiveness.

For asset managers, these changes have spurred discussions regarding the operational processes and technology employed in conducting oversight. Standard industry files were developed to increase transparency. In 2008, the Financial Intermediary Controls and Compliance Assessment (FICCA) framework was established and continues to evolve as adopted.

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THE DATA EVOLUTION

Today, asset managers are experiencing an exponential increase in data volume and complexity. Data such as security master parameters, asset based fee calculations and reconciliation, blue sky states' sales, and transaction detail all exist on multiple platforms across the asset managers' subaccounted distribution partners. Where in the past one data set originated from the transfer agent, today there are multiple fund security masters and blue sky sales files, tens of hundreds 12b1 invoices and multiple DSA and DSP files. In response, to evaluate the sub-TA control environment the number of independent third party reports has also expanded.

EVALUATING OVERSIGHT

The purpose of an oversight program is to reduce distribution risk, specifically to ensure operational compliance with prospectuses and Statements of Additional Information (“SAIs”), along with distribution partners' adherence to applicable legal and contractual agreements. The below questions should be considered in your program evaluation.



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How do you store and maintain counterparty information and data?

To ensure the accuracy, timeliness and consistency of documentation consider the storage and availability of data elements of the counterparty in a central document vault for the multiple stakeholders (compliance, operations, sales and legal) of your oversight program. These data elements should include, but not be limited to: organizational information such as contacts, subaccounting status, designations (SIFA, FICCA or SOC1) availability, regulatory sanctions, organizational size and legal documentation related to fee and contractual agreements.

It is important to have the ability to store and query DSA/DSP data to facilitate transparency analytics related to assets under management (AUM), number of accounts serviced, average size of accounts, inflow/outflow analysis, sales by social code, etc.

Do you conduct oversight reviews using a consistent control framework based on the counterparty?

Utilizing a consistent control structure in your workflow will help to identify potential gaps in your program. Is there an assumption that legal is reviewing specific contracts and documentation that they believe is the responsibility of operations? Tracking each element of the control structure, including key events/meetings, open items, review status for each control and status of overall review, will flush out these gaps. This workflow should also leverage the above mentioned central document vault to review and retain counterparty documentation.

Are you able to integrate fee management reconciliation capabilities with oversight?

Fee management services used should include capabilities to calculate and validate multiple types of fee invoicing (i.e. asset or position based fees). It should have the ability to receive and store distribution partner invoices, the ability to utilize transparency file data to perform independent fee calculation and reconcile them against the invoice. The capability to integrate settlement of payments via industry tools, like DTCC's Payment aXis, is also important.

Ideally, your solution should have the ability to incorporate results of these reconciliations into the intermediary review process as a point of quantitative assessment.

What about review and comparison of fund parameters?

Transparency into distribution partner fund parameters and comparisons to third party sources or transfer agent attributes should also be considered. The ability to review discrepancies during the review period or on an adhoc basis to validate special fee arrangements or implementation of corporate actions events can be a valuable addition to your program.

Are you able to develop a risk profile to ensure appropriate reviews at the appropriate time?

Quantitative and qualitative data constructed on your counterparty should be used to develop a risk profile. This is critical to risk mitigation and driving efficiency in your program. Leveraging quantitative data combined with qualitative data should assist in calculating a risk score. Utilizing only a subset of data points may point you toward reviewing sophisticated distribution partners that have the most stringent control structures and present the least risk.

Michael Mitchell is a Vice President in BNY Mellon's Global Investor Services Group.

How do you evolve reporting to reduce administrative burden and produce more robust results?

The use of customized dashboards for immediate risk identification, key deliverable dates and open items is critical in the day to day operations of oversight.

Adoption of these oversight components can assist you in implementing a program to help identify the appropriate distribution partners to review at the appropriate time. They provide the ability to produce comprehensive real time reports that demonstrate results of your oversight program.

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