Pressure mounts on third-party providers to increase transparent relationships

Three executives from STP Investments discuss how they and other third-party providers should be responding to transparency demands from investors and regulators

Keith Bradley, COO; Dan Schlossberg, v.p. of client service and business development; Damon Wioskowski, v.p. of business operations

Danielle Kane (DK): Let's start by talking about the increasing use of automated reporting functions. As automated reporting processes are adopted, this will free up operational professionals' time for other functions. What are those other functions?
Keith Bradley (KB): Even when reports are easier to generate, the data itself has become more complex. So aggregating the data and figuring out ways to display it has become a more important function.

There is an increased need for data transparency. We have clients demanding access to more information, especially after the [Bernie Madoff] scandal, clients want an understanding of performance and their portfolio holdings. This need for transparency, requires us to gather more information and then present it in a way that clients have a full view into their returns, what's driving performance and how the portfolio is assembled.

DK: What are some best practices to meet that client demand for increased transparency?
KB: The way we used to approach a particular issue was by using static reports where you present one piece of data in one way. But we've moved to using dashboard reporting, which allows [fund companies] to see different data in different areas. For example, if we're looking at year-to-date returns for a portfolio, we'll drill down into the months and days of the data and look at the numbers in depth.

Dan Schlossberg (DS): Dashboards really promote transparency because clients are not losing control of the day-to-day oversight since they are able to drill down as far as they want. This, historically, has been an issue with certain providers. But clients continue to demand transparency all the way through to operations so they can see all the data required to run their business.

DK: As we talk about transparency, I think it's important to address the new SEC modernization rules that were finalized on Oct. 13 as these rules stress the importance of reporting transparency. What were your general thoughts on the impact for operations?
KB: Obviously any time you have new rules out from the SEC, there is a lot of compliance involvement. But similar to what we're seeing from a compliance perspective, we also see the need for operations and tech teams to be involved solving SEC challenges.

As we think about modernization and the ability to have additional data elements and access to data, we will continue to see involvement from operations. And from a tech perspective, there will be a need for them to develop the tools that will allow for these changes [to be implemented].

DK: From your seat, how much will these new rules impact service providers?
KB: As a middle-office services provider, I don't think it will have a big impact on what we do. This will be directly impacting our clients though since really the management burden of these responsibilities

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will sit primarily within [the fund]. From a reporting point of view and requirements to fill out certain forms and file it with the SEC, some of that would sit with us. But that goes back to our conversation about the ability to have that data available. Overall, there's nothing that particularly scares us about these new regulations.

DK: As new regulations continue to come out, are you seeing that more fund companies are outsourcing portions of their middle-office? If so, why?
Damon Wioskowski (DW): Yes, outsourcing is becoming more commonplace because of the rising costs of supporting middle- and back-office structures; the increased regulatory requirements and the large amount of data having to be processed and analyzed every day. "The financial costs required to establish and maintain the needed internal structures, including hiring and retaining talented professionals, handling voluminous amounts of data and meeting increasingly stringent regulatory hurdles, are often too much for many managers to justify."

DB: As far as middle-office functions: reconciliation, regulatory reporting, performance measurement and trade settlements are all areas where we definitely see a trend toward outsourcing.

DK: What are other areas within the fund company where clients are asking for support?

KB: Cyber security. We had almost all of our clients coming back to us in the early summer wanting to review our cyber-security protocols. Regulators are stressing a third-party's ability to protect client data, so there's been a big push to present our [protocols] and help get our clients up to speed. Some smaller clients are scrambling to get their own protocols where they need to be, so we are helping them with that as well.

DK: In any of these cases, are you finding that fund companies want to hand everything over to their third-parties or do they want to maintain involvement after outsourcing? What do you recommend?
DB: We work hand-in-hand with clients. Most fund companies believe they need oversight on their side, and for us, to ensure operations [run efficiently] as an outsourced provider, we do ask they have a direct point of contact. So, yes, there is an oversight model on their end to ensure we have a successful relationship.