Confluence™

CONNECT

ISSUE **1**

Confluence Connect

Rising to the challenge

While many challenges in 2020 have been associated with the ever evolving work and economic environments created from the global pandemic, much of what we focused on as an industry this year has, thus far, been exactly what was expected at the end of 2019.

As a global fund industry, asset owners, managers, and servicers started the year with a whole host of things on the top of minds including further reducing costs and dealing with the continued regulatory requirements facing funds. While none of this was new in 2020 or anytime in the recent past, the competitive and regulatory pressures were such that firms knew it would be a major priority for 2020.

Looking back after ten months one thing is clear – nothing will stop the global fund industry from progressing. Despite the additional stresses created from the global pandemic, we have met and are meeting those challenges that we knew were ahead of us at the start of the year. Using smart data management, cloud technology, and the right expertise, our industry has more than survived this difficult year, it has thrived.

> And in the middle of all of it, Confluence rebranded to present our now combined suite of solutions to the market and show how partnering with the right technology solutions provider can help us all meet our goals.

We hope you enjoy this edition of Confluence Connect magazine.

Gary A Casagrande
Vice President of Global Market Strategy

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The New Confluence

"If I had asked the people what they wanted, they would have said faster horses."

Our previous website at one point highlighted this quote that's attributed to Henry Ford. It's a great line, and while it speaks to the ability that innovators have to create solutions that consumers haven't even considered, it also acknowledges that consumers have a general sense of what they are missing and what they need.

Since we started Confluence in 1991, our clients have been telling us what they want, and today, more than ever before, we are able to deliver. They want enterprise-wide solutions that bring together the data-centric processes in the front, middle and back offices to work efficiently and harmoniously, in service to the end investor. In the early days, they wouldn't have been able to vocalize what those solutions might look like – and we didn't know either.

> With our brand relaunch today, including a new website and brand identity, we are able to represent our ability to bring clients those innovative solutions they have been looking for.

Last fall, Confluence's acquisition of StatPro brought together two highly complementary businesses that together offer a broad range of data-driven solutions for reducing risk and increasing efficiency in the front, middle and back office. But there was a lot of work to be done to integrate the two companies before we could present to the market the broader, more complete offering we were striving for. The completed organizational integration means that regardless of whether you were originally a Confluence or StatPro client, you now have access to a wider variety of solutions to help you navigate a constantly changing environment where shareholders, clients and regulators demand more data and analytics and the pressures to deliver it all cost effectively are at an all-time high.

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Mark Evans
Chief Executive Officer and Founder

Watch the video >

Confluence Article

2020 GIPS® Standards - Evolution, Adoption and Mid-Year Evaluation

Improved structure, less complexity, more relevance... and technology friendly. The 2020 update has opened up a number of opportunities to increase efficiency. Is your firm taking advantage of them?

Six months in

Standards, especially voluntary ones that span many markets and countries, need to reflect not only the dynamics of those markets, but also the needs of the market participants. In short, they must accrue to the general benefit of their markets and broadly to the participating firms.

Have the 2020 GIPS Standards achieved this?

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- How the standards have evolved to keep up with markets worldwide
- How the 2020 update has simplified the standards for asset owners, managers, and verifiers
- How technology can be used to automate the GIPS compliance process

Confluence Blog

Understanding the 2020 GIPS® Standards

Global investment management firms have had long-standing challenges in complying with the patchwork of laws, regulations and market customs in the places where they do business. The problem is that across global investment markets, a unified, consistent and cohesive regulatory guidance generally does not exist.

But the financial industry has always been a community of problem solvers and the Global Investment Performance Standards (GIPS® standards) were ultimately developed to address the issue.

Spearheaded by CFA Institute, the goal was to establish a set of voluntary requirements for consistent and transparent reporting that would create universal demand among asset owners, adoption by asset managers and support by regulators. These standards, which were first issued more than two decades ago, have been a tremendous success. Today, across 46 markets, more than 1,700 asset managers, including 24 of the largest 25, claim compliance[1].

Nothing remains static in finance and to remain effective and relevant, the 2020 GIPS standards were developed to make improvements to the structure, relevance and simplicity of the guidelines, and to take advantage of the tremendous leaps in technology made in the intervening two decades. Using the accumulated feedback on the 2010 edition as a starting point, response from the industry was extensive, with over 5,400 comments received[2]. After filtering through and incorporating a great deal of input and commentary, a new body of standards was put into effect on January 1 of this year.

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Confluence Blog

COVID-19: How to stress test for the unknown

The COVID-19 pandemic has already had far-reaching consequences beyond the spread of the disease, such as plummeting oil prices, stock and bond market volatility and a lack of global liquidity. With a crisis of this scale, it is not unusual to go back and start looking at what happened during similar events in the past.

> It might be tempting to compare the coronavirus outbreak to the SARS epidemic of 2002-2003, but the global macroeconomics and factors fueling the major economies worldwide have significantly changed over the latest 20 years, particularly since the global financial crisis in 2008. As such, more recent disruptive events may make for better comparisons.

2014 Outbreak in Middle East
In 2012, an outbreak of Middle East respiratory syndrome coronavirus (MERS-CoV) affected several countries, mainly in the Middle East. The virus, which causes what is now called Middle East respiratory syndrome, is a beta-coronavirus that was first identified in a patient from Saudi Arabia in April 2012. Sporadic cases, small clusters and large outbreaks were reported in 24 countries globally from later in 2014 up to the middle of 2015, but no severe financial impacts were recorded.

2015 Outbreak in Far East, South Korea
Another outbreak of MERS-CoV occurred in South Korea between May to July 2015. This time, however, the financial effects were more apparent. On June 11, 2015, South Korea's Central Bank cut interest rates by 0.25% to stem the economic fallout from the outbreak. The global equity market suffered mainly in the Energy, Materials, Utilities and Consumers sectors.

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ESMA Money Market Fund Regulation: The Strategic Opportunities that Lie Beneath

For those tasked with ensuring compliance at MMFs, the implementation of these regulations will entail a number of new tasks, processes and challenges. With Article 37 MMF Reporting now due in September 2020, there is still time to strategically prepare for it and related stress testing programs.

A new regulatory era

ESMA's stress testing requirements represent a step change in reporting protocols and will present both challenges and opportunities for managers of MMFs. In this article, we will take a closer look at the current state of play and outline some frameworks and structures for ensuring that compliance with the stress testing requirements is not unduly stressful for those responsible for their implementation.

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- How to satisfy the requirements for ESMA stress testing
- What the Article 37 MMF reporting template entails
- How regulations are causing firms to become increasingly reliant on data

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Key questions to consider ahead of ESMA Article 37 MMF Reporting

The introduction of Article 37 Money Market Fund Reporting, albeit delayed until September 2020, has ushered in a new era of regulatory reporting. In an effort to provide insight into the new reporting protocols, we've answered a few frequently asked questions floating around the industry.

What is the main goal of the Article 37 MMF Reporting obligation?
Money Market Funds (MMFs) specialize in providing investors with short-term investment solutions, aiming to earn a higher premium compared to current and savings accounts.

MMFs are generally considered to be one of the safest investment vehicles with good levels of liquidity and low levels of risk. However, during the 2008-09 financial crisis even these instruments came under pressure due to the high volume of redemption requests. Following this crisis, ESMA wanted to increase transparency of MMF funds, with the primary aim to safeguard investors from liquidity risk ensuing from redemptions during adverse market conditions.

Article 37 MMF Reporting includes new requirements on transparency, valuations and investment policy, and obliges each MMF to have in place sound risk management, identifying stress testing, liquidation stresses and reverse liquidity analysis as core components of such oversight.

How does MMF size affect Article 37 MMF reporting?
MMFs with net assets above 100M EUR must report quarterly, while MMFs under 100M EUR report annually.

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Data management: The game changer for regulatory reporting

The coronavirus pandemic is a trigger event ushering in not only a global financial crisis, but also the inevitable regulations that will follow. After the 2008-2009 financial crisis, the financial services and technology industries saw a significant response from regulators. The first focus was on systemic risk monitoring to ensure that individual actors and their financial transactions and holdings didn't create a risk large enough to impact the entire system.

> New regulations were particularly heavy in the alternatives space, which was a substantial holder of the mortgage-related securities at the heart of the crisis.

New regulatory reporting requirements were issued both in Europe and the US, including ESMA's AIFMD Annex IV quarterly reporting and the similar Securities and Exchange Commission (SEC) Form PF for private funds and Commodity Futures Trading Commission (CFTC) Form CPO-PQR for commodity pools.

Still, the reporting trend was not limited to alternatives. In the US, the SEC created reporting requirements for money market funds, which incredulously had also "broken the buck" during the crisis. The new monthly Form N-MFP required holdings-level disclosure and liquidity statistics. Then, the new holdings and liquidity reporting in Form N-PORT and N-LIQUID applied to SEC 40-Act Funds came in 2018. ESMA followed recently with Money Market Fund Reporting, which added even more focus on liquidity disclosure. Last but not least, ESMA Liquidity Stress Testing was issued in 2019 and is due September 2020 for all UCITS and AIFs.

Complying with all of these new regulations has become a steady and significant burden for asset managers and the administrators who serve them.

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Confluence Article

Liquidity Stress Testing: Modelling the unknown

COVID-19 has stressed the need to simulate its impact on liquidity, adding to the ever-growing list of challenges that asset, risk, and compliance managers face when monitoring the resiliency of investment funds.

Times of high uncertainty

The time for implementing the latest liquidity stress testing guidelines is now. It is of utmost importance that the fund industry start learning from the recent COVID-19 shock and start promoting the modelling of the possible shift in market expectations and the associated liquidity crunch.

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- Why current approaches to measuring liquidity risk fail to provide any indication for the most opaque and illiquid instruments
- How Revolution is able to respond to evolving liquidity regulatory frameworks globally, across both assets and liabilities.
- How COVID-19 stresses the need to simulate liquidity impact by looking at different magnitudes of shocks.

Confluence Blog

The importance of the Cloud during a pandemic

Whether we are watching Netflix, asking Amazon Alexa for a weather update or checking our email through Office365, cloud computing has changed the way we consume and create information, and how we interact with technology. This reality has been escalated with the "new normal" of working from home and the implementation of business continuity plans due to the COVID-19 pandemic.

> Massive numbers of people are working outside traditional office spaces, resulting in more interactions with business applications on a daily or even hourly basis. With this ramped up evolution in demand and use, it is vital that these applications be dependable, secure and efficient.

As businesses look to maximize these elements in their enterprise applications, understanding the difference between "cloud native" and "cloud wrapped" solutions could not be more important when it comes to managing financial assets.

Given all the benefits (and attention) associated with it, many tech vendors are looking for ways to identify their offering as "cloud-based" even if it was not the original design for the service. And that origin is the critical difference: a non-native solution skips the hard work of design and building to the rigorous specs of the cloud, and instead relies on a newly created web-based front end attached to legacy application architecture. These are considered cloud wrapped solutions. Though they may sound similar, these are vastly different than cloud native solutions.

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Confluence Blog

Technology and the self-service revolution in investment management

With the likes of Amazon, Google and Netflix transforming the way we go about our daily lives, the COVID-19 pandemic is the most recent reminder that in a self-service world, digital-savvy consumers expect information immediately with the swipe of a finger. In fact, anything less is simply unacceptable.

> Now more than ever, the investment management industry is looking to emerging technologies and digital solutions to create opportunities for change, to attract new business and to ultimately generate new revenue.

Elevated expectations

Expectations have been elevated, so why then are two-thirds of investment management firms relying on systems that pre-date 2007 and the first-generation iPhone. On the retail side, investors demand almost instantaneous access to assets and performance. Institutional clients are demanding more because they are used to getting faster, more transparent service on the retail side. However, more than half of firms still produce and blindly distribute large volumes of static reports to clients.

Why?

The reason is because many firms still have an abundance of legacy systems in place, with disparate data sources and silos, resulting in slower data analysis. So even producing the static reports is a tall order. These systems all have outdated interfaces that aren't easy to use, flexible, nor scalable. Firms have not had the tools to deliver what stakeholders want, either tailored enough, or in an acceptable time frame.

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Confluence Article

Self Service - Why it is more important now than ever

The self-service revolution has empowered consumers to digitally seize control, leaving all but the best firms to play catch-up. What happens when digital-savvy customers encounter an investment management industry where two-thirds of firms rely on systems that pre-date 2007?

The world expects information now

For too long, investment managers have trusted high set-up costs and cumbersome regulations to keep the wolf from the door. With proven demand for investment analysis tools at both an individual and institutional level, why has the investment management industry been slow to adapt?

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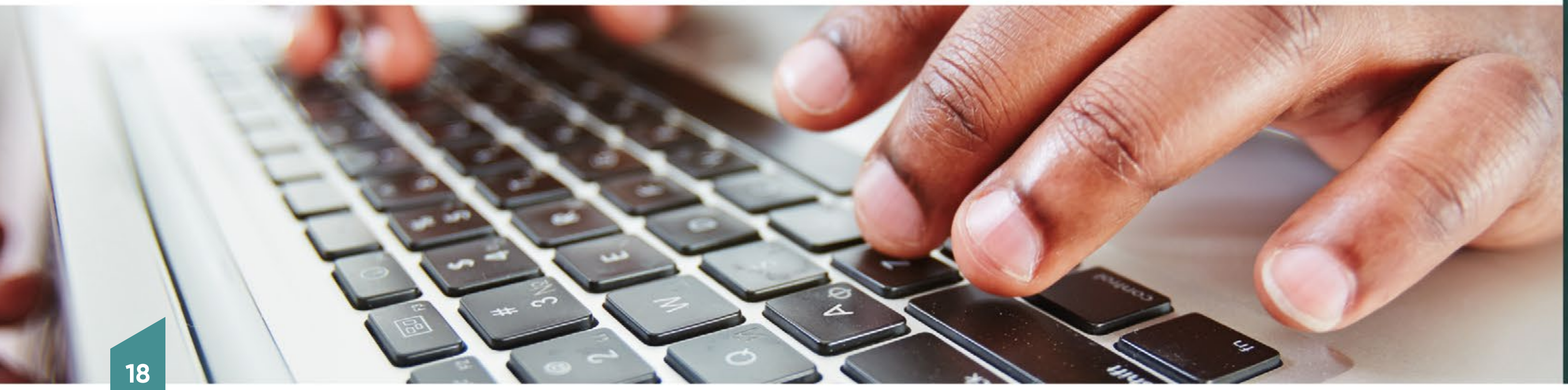
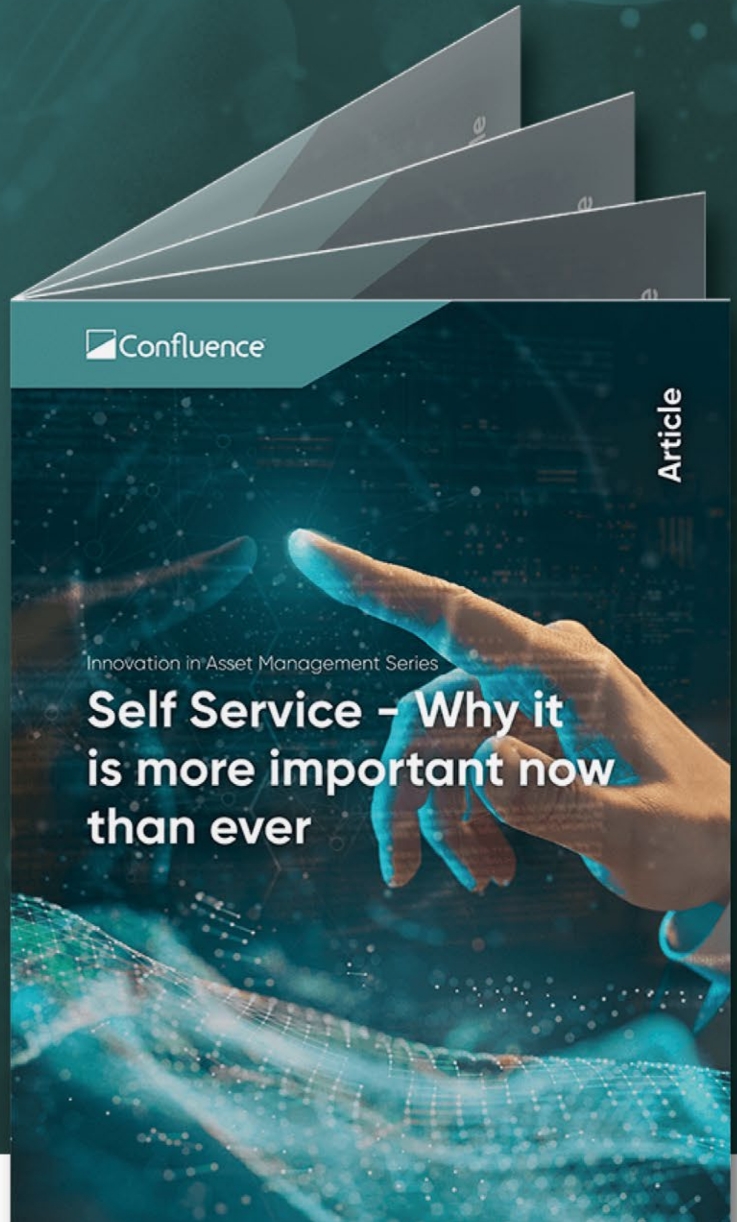


Download your free eGuide to learn:

- How client expectations have changed as a result of digital technology
- How online retail innovations have set the bar for customer service across all sectors, including investment management
- How investment analysis platforms can give firms the self-service tools they need to improve reporting, risk management & decision making.



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