

## CREATING AN ACCURATE AND EFFICIENT REGULATORY REPORTING PROCESS

In the United States, under the Wall Street Reform and Consumer Protection Act (“Dodd-Frank”), the SEC and CFTC requires registered advisers to hedge funds and other private funds to file Form PF (Form Private Funds). In addition, the CFTC requires hedge funds that are deemed Commodity Pool Operators to file Form CPO-PQR which has similar requirements but is nonetheless somewhat different. In the European Union, under the Alternative Investment Fund Manager Directive (EU AIFMD), hedge fund managers who market in the EU are required to report to the relevant regulator or National Competent Authority (NCA). Increasingly, regulators in other jurisdictions are implementing their own version of Form PF and EU AIFMD.

Some hedge funds have successfully completed their filings but have relied on an ad-hoc manual effort which is error prone, disruptive to regular business, and time-consuming for key personnel. An ad-hoc effort does not allow the firms to leverage the work from one period to the next, and from one filing to the other (i.e. Q4 filing does not leverage work product from Q3 filing, and Form CPO-PQR does not utilize Form PF information). This results in significant duplication of effort for each filing. Further, software solutions and services have largely focused on the final filing of the form, and not on process and information preparation.

Risk Advisors can implement a structured workflow process to streamline regulatory reporting preparation and filing, reducing the time and effort required to file.

### RISK ADVISORS DELIVERS:

- » **Collaborative Process** - Coordinate internal project team from business groups and technology groups
- » **Source Data** - Identify and compile data sources for each regulatory report question
- » **Manage Vendors** - Coordinate with system vendors and external data providers
- » **Analyze, Tag, and Aggregate Data** - Create a compliance data repository for all required data
- » **Metrics** - Calculate required measures and risk metrics
- » **Test Filings** - Prepare sample test filings and coordinate final filings with the regulator

## SUPPORTED REPORTING

<b>Form PF</b>	Private Fund managers report to the U.S. Securities and Exchange Commission
<b>Form CPO-PQR</b>	Commodity Pool Operators report to the U.S. Commodity Futures Trading Commission
<b>European Union AIFM Directive (EU AIFMD)</b>	Alternative Investment Fund managers report to the relevant National Competent Authority (NCA)
<b>Open Protocol Enabling Risk Aggregation (OPERA)</b>	Applies to all asset managers and is a standard to share risk and exposure information with regulators and investors

## OUR PROCESS



We enable our hedge fund clients to develop the processes to consistently manage their regulatory filings. We collaborate with our hedge fund clients on creating form preparation processes and systems, including identifying the different sources to collect the data from, classifying and mapping the data types into the required reporting categories, aggregating the data based on asset types as required by the regulator, and documenting the assumptions made as a guideline for future filings.

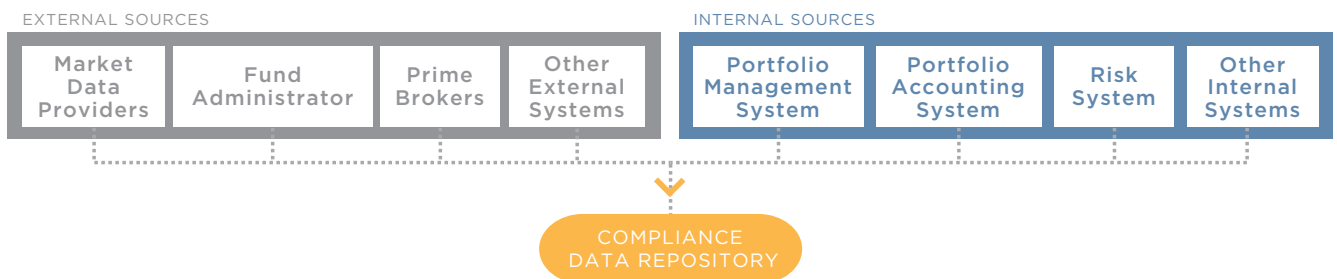
### 1. ASSESS REGULATORY REPORTING REQUIREMENTS

- Determine which regulatory reports the private fund needs to file and the relevant sections required
- Assign ownership of each question to the appropriate business group
- Create a cross-functional regulatory reporting project team that consists of members from business groups and the technology group



### 2. IDENTIFY DATA SOURCES

- Review external and internal data sources and systems
- Identify gaps and specify where additional data sources are required
- Liaise with providers of external data sources to fill gaps in internal data
- Gather data into a centralized data repository for further aggregation and analysis



## ➤ 3. ANALYZE, TAG, AND AGGREGATE DATA

- Analyze data to ensure accuracy and that data is defined in similar terms and prepared for aggregation, i.e. data normalization
- Tag data with additional information required for the report, using data mapping rules
- Aggregate data based on report's reporting levels and categorizations such as investment strategy and asset class



## ➤ 4. CALCULATE METRICS

- Calculate certain metrics (especially Section 2a and 2b) required by Form PF, such as portfolio duration, turnover, liquidity, and market risk metrics
- Discuss regulatory reporting requirements with the team and identify sources or flag as requiring further development
- Develop solutions and processes to calculate missing metrics

## ➤ 5. FILE REGULATORY REPORT

- Prepare test filings to review with client's regulatory reporting team
- Review filing with team and make necessary changes and adjustments
- Coordinate obtaining relevant internal approvals and sign-offs
- Manage final filing with regulatory reporting team and regulatory filing software solution provider, or directly with the regulator's depository, e.g., SEC, Private Fund Reporting Depository (PFRD).



## ➤ 6. DOCUMENT AND REVIEW

- Document assumptions and calculation methodology used for each regulatory report question
- Document procedures and workflow to provide auditability and substantiation
- Review with client and make recommendations for process improvements

**CASE STUDY:** *BUILDING A FORM PF PROCESS TO ENSURE CONSISTENCY AND MINIMIZE EFFORT*

A large multi-strategy hedge fund adviser with \$9 Billion in regulatory assets under management (RAUM) across diverse asset classes, including listed securities and complex OTC derivatives, was required to file Form PF including Sections 2a (Aggregate Positions) and 2b (Risk Measures). In addition, the firm was deemed to be a commodity pool operator and required to file Form CPO-PQR with the CFTC.

Each report required compilation of information from various business groups. Each business group had their own manual data retrieval, scrubbing and compilation process, resulting in additional effort spent on validation and reconciliation when sharing data across teams. Risk Advisors' was engaged to streamline the process and to make sure that the filing was prepared in a consistent manner across the firm.

**SOLUTION**

- Educated key stakeholders on the Form PF and Form CPO-PQR filing requirements as related to their group.
- Worked with the portfolio management and risk teams to understand how the firm's investments translated to the Form PF reporting requirements of Sections 1b, 1c, 2a, and 2b.
- Collaborated with the accounting group to understand the funds' structure, balance sheet information, and regulatory AUM required for Section 1a, 1b, and 1c, and requirements of Form CPO-PQR Schedules A, B, and C.
- Working with the technology team, analyzed and documented over 1,300 data points received from 24 sources, normalized to 400 common fields. The normalized data was further scrubbed, enriched and categorized into data warehouse to serve as the central source for Form PF reporting.
- Communicated and actively discussed the data with each user group to verify and ensure accuracy of the resulting reported data.
- Documented the process flow from initial data gathering to final filing step and reviewed with client to identify areas to streamline process.

**BENEFITS**

- Met Form PF and Form CPO-PQR filing requirements accurately, verifiably, and on-time, mitigating potential regulatory and compliance issues with the SEC and CFTC respectively.
- Standardized the data gathering and compilation process, ensuring consistent data usage across business units and shortened time required for both regulatory filings.
- As a result of developing a regulatory reporting data gathering process, the firm was able to access its global investment profile with risk metrics, with the ability to drill down to individual security level.
- Central source of regulatory reporting data substantiates the Form PF and Form CPO-PQR filing and is auditable back to source business groups and systems.
- Streamlined process combined with centralized data can be leveraged for additional filings to regulators in other jurisdictions (such as EU AIFMD) or other industry standards based reporting (such as OPERA risk reporting).

## TEAM



### SANJAY R. BHARWANI

Sanjay founded Risk Advisors Inc. to bring together markets professionals, risk management experts, and technologists to serve clients in financial markets. He actively consults with clients on risk management and technology related projects, and advises startup ventures focused on new ideas for the financial services industry. Previously, Sanjay was the Chief Information Officer at M. Safra & Co., a multi-strategy hedge fund focused on global macro and systematic trading strategies. Earlier in his career he focused on emerging markets debt at EXIS Consulting, a boutique financial markets advisory firm, and derivative valuations at Reval, a risk solutions provider. Sanjay received his MBA from the Wharton School at the University of Pennsylvania, and a Bachelors of Commerce from the University of Mumbai.



### LAURIE YEH

Laurie leads the Operational Risk and Compliance practice. She is experienced in delivering business process and technology solutions for financial institutions. Before joining Risk Advisors, she was with Gottex Fund Management, a Swiss based fund of hedge funds, where she managed the product enhancements to the fund's portfolio analysis system. Prior to Gottex, she was at EXIS Consulting, a boutique financial markets trading systems and advisory firm, where she directed the delivery of client projects. Laurie holds an MBA from NYU Stern School of Business, and a BA from Cornell University.

## ABOUT RISK ADVISORS

Risk Advisors Inc. is a consulting firm that understands the dynamics of financial markets and the inherent challenges in implementing a cohesive investing and risk management program across the enterprise. We offer deep industry knowledge, a rigorous process framework, and technology expertise to provide practical solutions for financial institutions and asset managers.