



WHITE
PAPER

MMIF REPORTING AN ONGOING CHALLENGE FOR FUND ADMINISTRATORS

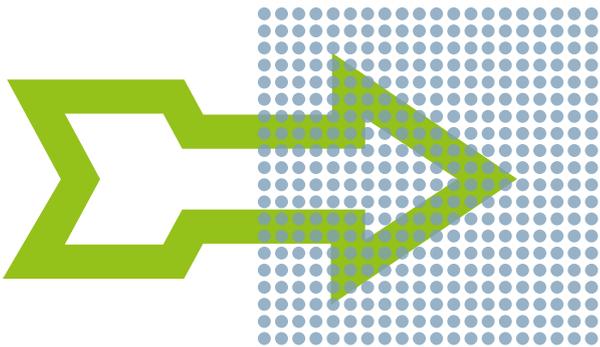
RR DONNELLEY

Author
Shane Brett
Global Perspectives

CONTENTS

1.0		
INTRODUCTION		01
<hr/>		
2.0		
MMIF REPORTING RESEARCH SURVEY		02
2.1	SURVEY FINDINGS	02
2.1.1	MMIF IMPLEMENTATION PROCESS	02
2.1.2	REPORTING TIMELINE	03
2.1.3	MMIF WEBSITE	04
2.1.4	HEDGE FUNDS	04
2.1.5	EXTERNAL DATA	05
2.1.6	MMIF REPORTING SOLUTIONS	05
<hr/>		
3.0		
CONCLUSION		06
<hr/>		
4.0		
ABOUT RR DONNELLEY		07
<hr/>		







“

Of more concern to the managers of the fund however, is the damage to the reputation of the firm if non-compliance stories become fodder for the press. ”

1.0 / INTRODUCTION

In April 2014, the Central Bank of Ireland (CBI) introduced new reporting requirements for all funds in Ireland.

The Resident Money Market and Investment Funds Return (MMIF) must be completed for all UCITS (Undertakings for the Collective Investment of Transferable Securities) and hedge funds resident in Ireland. The MMIF report replaces the Other Financial Intermediaries (OFI) and Funds Annual Survey of Liabilities reporting requirements. For a majority of funds, MMIF Reporting is required on a quarterly basis.

Previously, the OFI reporting process caused operational challenges for many fund administrators. With the introduction of the new MMIF requirements, the Irish funds industry anticipated a more fluid and systematic process.

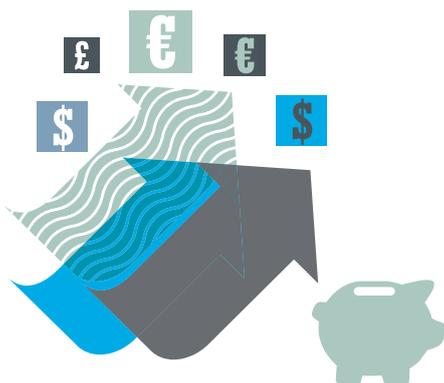
While the responsibility for MMIF reporting is with the fund (i.e., its directors), in practise, fund administrators (as the Official Books and Records of the fund) have been submitting the report on behalf of the fund.

Funds can be fined up to €200,000 for failure to comply with MMIF Reporting requirements or for failing to submit fund information accurately and on time. Of more concern to the managers of the fund however, is the damage to the reputation of the firm if non-compliance stories become fodder for the press.

The timeline for MMIF reporting has been tight and the resources required to complete the submission process have been substantial. The MMIF reporting process has proved challenging for fund administrators.

OFI & MMIF Reporting – Key Differences

	OFI	MMIF
Fund Scope	All Irish Resident funds	All Irish Resident funds
Frequency	Quarterly	Quarterly but monthly for Money-Market funds
Fund information	Narrow scope	Wide scope
Data granularity	Position level	Transaction level
Submission portal	ONR system	New CBI portal
CBI Validation Checks	High Level Error identification	Granular Level Error identification





2.0 / MMIF REPORTING RESEARCH SURVEY

RR Donnelley asked Global Perspectives to conduct an MMIF Reporting survey of the leading fund administrators in Ireland. The aim is to gain an understanding of the impact of the regulation, how implementation has progressed to date and the challenges that fund administrators in Ireland have faced implementing these new fund reporting requirements.

This survey is particularly timely. During the summer of 2014 the Central Bank issued commentary critical of the fund administration industry and the submissions of fund reporting in recent years. The CBI in particular pointed out that it felt there were a number of unacceptable errors in previous submissions. The CBI's comments received substantial coverage in the media.

“

MMIF reporting is
“the bane of everyone’s
life” at the organisation.

”

2.1 SURVEY FINDINGS

For the survey Global Perspectives interviewed staff working in MMIF reporting at all of the top-tier fund administrators operating in the Irish market. These were primarily senior managers, heads of regulatory reporting, vice presidents and compliance managers directly involved in managing the MMIF reporting process.

The survey participants were surprisingly consistent in their responses to the questions. Many of the same points (both positive and negative) were repeated consistently by the survey participants across different organisations. One administrator said MMIF reporting is “the bane of everyone’s life” at the organisation. Another administrator was complementary of the new CBI reporting portal (“a huge improvement”), while others found the new reporting requirements a “completely different beast” than OFI1 reporting.

The top 5 problems identified by the survey participants were as follows:

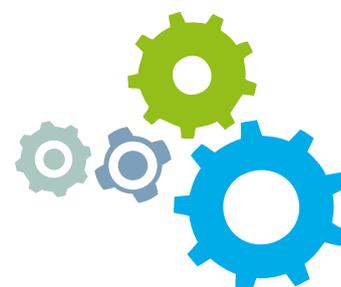
- ❖ Improvement in regulator communication required (100% of respondents)
- ❖ Collation of reporting data taking up substantial internal resources (100% of respondents)
- ❖ Existing internal reporting solutions too manual and unwieldy (80% of respondents)
- ❖ On-going CBI changes to the MMIF reporting requirements with little notice (70% of respondents)
- ❖ CBI validation process can be slow around reporting deadlines (60% of respondents)

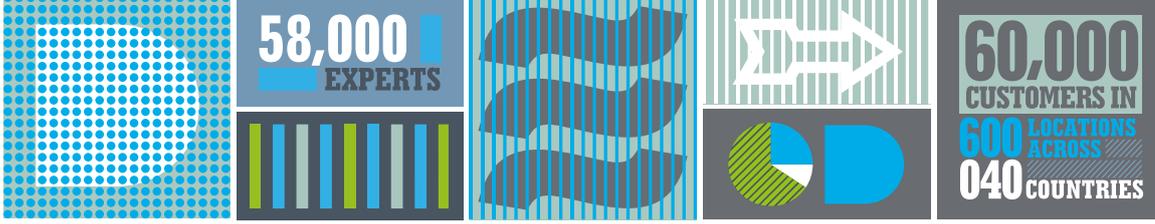
Further details of our survey findings can be found below.



2.1.1 MMIF IMPLEMENTATION PROCESS

Most fund administrators interviewed felt the MMIF implementation process had been a challenging experience. The CBI held regular calls with the industry prior to the implementation of the new rules. Most administrators participated in these regular conference calls which were generally seen as a positive and engaging experience.





“
 Collation of reporting data taking up substantial internal resources
 ”

The CBI also issued guidelines regarding the format and template of the MMIF reporting standards, as well as details of the data to be included and technical guidance. The main challenges have come after the date of implementation. The CBI has continued to issue regular updates and new rules to the data required in the reporting template. This has caused fund administrators some problems.

The notice of regulatory changes from the CBI has been challenging. The time allowed for implementation has sometimes been too short. For example, the CBI issued some new MMIF requirements on 24 June 2014 to be included in the Quarter 2 2014 MMIF reporting (as at 30 June). This only gave the industry six days to comply.

It should be noted that when the industry notified the CBI of the difficulty with complying with this timeline, the CBI helpfully moved the requirement to Quarter 3 2014.

Some administrators commented that they felt perhaps the CBI wasn't fully aware of the length of the technology development cycle in place at large organisations. The larger administrators often have many IT development and integration projects competing for limited resources. This has proven a real challenge for some of the administrators we interviewed.

Fund administrators felt there had been a large number of further changes to the MMIF rules since their implementation in April 2014. Many are waiting on communications in 2015 from the CBI, before investing any more resources in either building a tactical solution or looking at an external provider.

2.1.2 REPORTING TIMELINE

Overall, fund administrators have found the timeline for submission very tight. The original submission timeline was Quarter End + 10 Business Days for traditional funds and Quarter End + 12 Business Days for hedge funds. This has proved to be a challenging reporting cycle for many administrators.



The larger administrators have, on average, over 500 funds to submit to the regulator. Successfully meeting the MMIF reporting deadline has been difficult for many administrators, particularly those reporting for hedge funds.

Recently the CBI extended the deadline for submission to Quarter End + 12 Business Days for traditional funds and Quarter End + 15 Business Days for hedge funds. This extension has been warmly welcomed by everyone we interviewed for the survey.

Administrators are using this extra time to complete further tests and checks on the validation and integrity of the reporting data. The extended deadline has allowed some more leeway in the internal validation of fund information, as well as providing more time to gather the required data from external sources.

Despite extensions to the submission time, most administrators we interviewed are still finding the reporting process around the key quarterly deadlines to be a hectic, manual and data heavy process.





2.1.3 MMIF WEBSITE

All survey participants agreed that the new CBI website for MMIF reporting submission is a major improvement on the old OFI1 reporting submission process. The interviewees all believed it is more user friendly and intuitive.

The new website gives the exact details of the errors identified when uploading a fund and not just a standardised rejection notice, as was the case for OFI1 reporting. The new CBI reporting template isolates and highlights the errors down to the specific cell in the reporting template. This makes it much easier to rectify and resolve issues.

However, the key challenge with the CBI website is with the quarter end submission dates. All of the administrators in Ireland are submitting their reporting at the same time, but the system can only process and upload one at a time, leading to delays in submission during the quarterly reporting periods. As filings often occur very close to the final submission deadline, the filing process has proved a challenging experience for over half of the administrators we interviewed.

Survey respondents noted that the CBI MMIF validation process has sometimes slowed down as the reporting deadline approaches. It can take a number of hours before a fund submission is either approved or the submission is rejected for failing the CBI's validation rules.

One fund administrator spoke of delays as long as 16 hours for fund data to be submitted and cleared by the CBI validation checks. In other cases, we encountered funds that had been submitted the day before that were rejected at 7 AM the following morning.

A final difficulty has arisen where funds have been rejected the first time around and administrators have had to make further changes or updates to the data. Several fund administrators told us that at times, when they would fix initial errors flagged in a prior submission and then resubmit, completely new errors would be flagged in the system following the second submission.

2.1.4 HEDGE FUNDS

Hedge Funds and Fund of Hedge Funds are proving even more problematic for administrators.

While all interviewees are grateful for the additional two business days that are allowed for hedge fund submissions, the process is still complex, manual and resource heavy.

All of the survey participants felt that reporting for these kinds of funds is far more complicated under MMIF than under the previous OFI1 reporting regime.

The CBI requires much more data at the transaction level. There is an increase in the number of data points needed, the structure of how the data is represented (including currencies, industry sectors and credit rating) and the level of granularity to be reported.

The sheer volume of trades executed by many high frequency trading hedge funds (often tens of thousands of trades a day) can cause difficulties in the reporting process.

The accrual of performance and management fees on hedge funds is also causing problems. The CBI has validation checks based upon the Opening Balance, Transaction Activity and Closing Balance of the fund. Large accrual changes to this (as can be common on performance fees) are causing the hedge funds to fail the submission process. Several administrators are including these fees in "Other Assets" to ensure the fund passes the submission checks.

“

All of the administrators in Ireland are submitting their reporting at the same time, but the system can only process and upload one at a time, leading to delays in submission

”





“

Several fund administrators interviewed are having to submit fund of hedge funds eight times a year rather than quarterly.

”

“

Development has been costly and demanding on internal resources

”

Fund of hedge funds represent another challenge in the new reporting process. Final prices for these type of funds are usually not available within the T +15 business day cycle. Fund administrators are being required to submit quarterly reporting with the best quality indicative data available and then “true up” the fund the following month when the final valuation information is confirmed. Several fund administrators interviewed are having to submit fund of hedge funds eight times a year rather than quarterly.

This is also common for complex hedge funds holding illiquid securities. These securities are often valued by Fund Pricing Committees which may take a number of weeks to approve the valuation of more exotic investments.

2.1.5 EXTERNAL DATA

The MMIF data to be reported includes information that is normally held by other parties, most notably the fund managers.

The type of external data required includes fund liquidity details and credit ratings information. As the fund administrator would not normally hold such data, investment managers are being asked to provide it at the quarter end. Fund administrators are having to ensure the correct data is received in time to be uploaded onto the CBI website.

In most cases, however, administrators have found that once the managers realise it is their responsibility to provide external data, the process of collecting mandatory data becomes less complicated.

Just over 20% of administrators interviewed have had difficulties obtaining liquidity information for managed account platforms. In these instances, there are many managers operating on the platform and the administrators do not have a direct relationship with them. This makes it difficult to obtain liquidity information by the submission deadline.

Another challenge can arise when the administrator provides only the valuation and not the transfer agency services for the fund. This is a relatively common occurrence. The fund administrator needs to include shareholder profile information in the MMIF reporting filing and they are dependent upon the external transfer agency providing it. Nearly 80% of survey participants stated that external administrators were helping each other with these data requirements.

2.1.6 MMIF REPORTING SOLUTIONS

All administrators who participated in the survey have built temporary internal reporting solutions. They noted that development has been costly and demanding on internal resources.

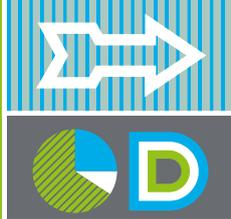
These ongoing changes to the reporting requirements since April of 2014 has led to half of administrators surveyed ceasing further development work until they believe further guidance from the CBI with respect to updates has been completed.

A number of fund administrators were concerned with how MMIF Reporting solutions would be hosted internally.

Administrators noted that internal technology departments might not be best placed to manage an MMIF solution on a long-term basis. The IT department would have to manage future reporting changes and would not be familiar with the reporting data required.

FUNDS





3.0 / CONCLUSION

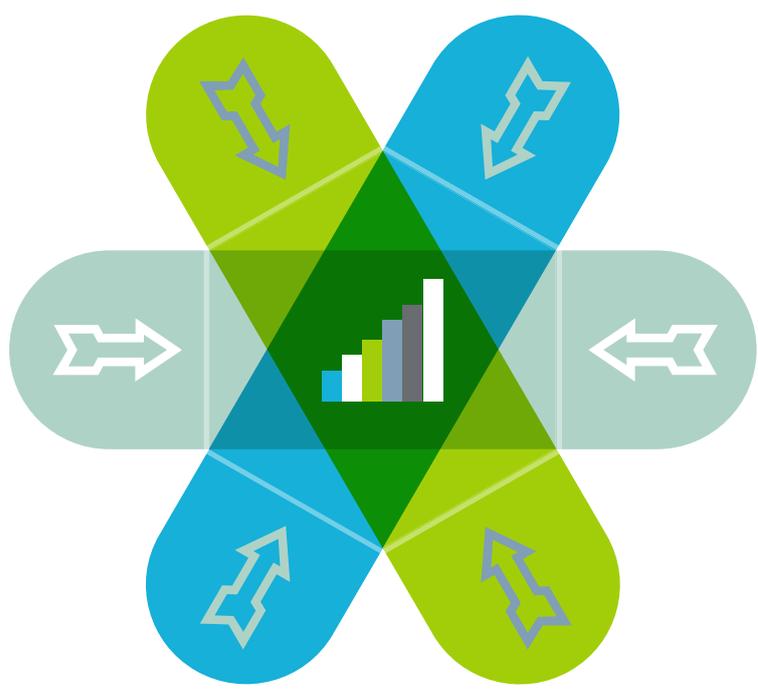
The implementation of MMIF reporting has been a challenging process for fund administrators based in Ireland. The scope and volume of information required has necessitated a major internal push at fund administrators in order to coordinate the data and complete the submission to the regulator on time.

Administrators need appropriately trained internal staff, with the expertise and CBI reporting knowledge, to work on the submission process.

A high proportion of respondents indicated that they are evaluating new charging structures to fund managers for MMIF reporting as an added service.

The CBI have asked for feedback from organisations on the new rules and they are examining the possibility of setting up a new industry group to liaise with fund administrators. This certainly is a step in the right direction.

“ A high proportion of respondents indicated that they are evaluating new charging structures to fund managers for MMIF reporting as an added service. ”





4.0 / ABOUT RR DONNELLEY

RR Donnelley (Nasdaq:RRD) helps organisations communicate more effectively by working to create, manage, produce, distribute and process content on behalf of our customers. The company assists customers in developing and executing multichannel communication strategies that engage audiences, reduce costs, drive revenues and increase compliance. RR Donnelley's innovative technologies enhance digital and print communications to deliver integrated messages across multiple media to highly targeted audiences at optimal times for clients in virtually every private and public sector. Strategically located operations provide local service and responsiveness while leveraging the economic, geographic and technological advantages of a global organisation.

As one of the first companies to specifically address the compliance communication needs of the fund industry, RR Donnelley Investment Management Solutions employs a comprehensive team specifically focused on the regulatory requirements affecting the funds sector in Europe. Our range of capabilities and superior technology, combined with process improvements, optimisation solutions and production expertise, help clients stay in compliance with changing regulations, reduce total costs and optimise the preparation, production and delivery of their documents. Our composition, production, delivery and results tracking offer the complete communications solution. From XBRL tagging to e-Delivery, our fund solutions address your needs today as well as in the future. That is why most of the leading mutual funds use RR Donnelley Investment Management Solutions for all their compliance needs.

For more information, visit our website at <http://www.rrdonnelley.com> and www.rrdonnelley.com/fundsolutions.



