Convergence of Regulatory and Analytical Reporting

15 March 2016
The financial sector sees comprehensive regulation.

No financial market, product or actor should remain unregulated\(^1\).

\(^1\) G20 London summit leaders’ statement 2 April 2009
There are direct and indirect impacts for asset managers.

**Asset Management Regulation**
- **Regulation**
  - EMIR
  - MiFID
  - FATCA
  - Dodd Frank Act
  - UCITS
  - AIFMD

**Formally obliged**
- Asset manager, fund administrators

**Obligations of Asset Managers**
- Provide reports and data to e.g. local Supervisory Authorities, Trade Repositories and others

**Investor Regulation**
- **Regulation**
  - Solvency II
  - Basel III
  - IORP

**Formally obliged**
- Investors, i.e. insurers, banks, pensions

**Obligations for Asset Managers**
- Provide investors or other asset managers with data as an input to create their reporting

**Additional drivers of complexity**
- Fund look-through
- Local supervisory policies
- Standards inconsistent through markets and sectors
Catering to the regulatory requirements of banks, insurers and pension funds is mandatory given the size of AuM.

Thesis 1  CRR/CRD IV liquidity requirements for Banks will increase client reporting complexity.

**Facts**

Quantitative requirements for banks since 2015:
- LCR Liquidity Coverage Ratio LCR (30 days)
- Net Stable Funding Ratio NSFR (1 year)

**Example**

LCR: \[
\frac{\text{HQLA}^1}{\text{Cumulated net outflows in the next 30 days in a Basel III stress scenario}} \geq \text{factor}
\]

Factor\(^2\) =  
- 60% in 2015
- 70% in 2016
- 80% in 2017
- 100% in 2018

**Challenge**

- Banks see increasing need for HQLA.
- Investments in funds (CIU) eligible under specific conditions (see CRR Art. 15).
- Classification of HQLA is complex:
  - 4 different classes of HQLA with individual thresholds
  - Complex selection criteria e.g. by issuers, sectors, instruments, CSA risk weights
  - Specific haircuts
- Asset managers will face additional complex reporting requirements in the next years.

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1 High Quality Liquid Assets
2 Commission Delegated Regulation (EU) 2015/61 ... with regard to liquidity coverage requirements; Article 38 No. 1 “Transitional provision for the introduction of the liquidity coverage ratio”
Criteria to qualify assets as HQLA – 8 pages of small print to be translated into business and IT concepts
Thesis 2  Creating outperformance for insurers will become more difficult under the Solvency II regime.

Facts

First official supervisory reporting due in May 2016.

Solvency II Client Reporting not audited so far.

Economic as well as regulatory capital are limiting factors for insurers.

Challenge

- Quantitative Changes in reporting likely.

- Separate limit systems required for economic and regulatory capital.

- Consumption of regulatory capital will result in management targets for segregated accounts and investment funds.

- Asset Managers see a call for investment funds and investment strategies that create outperformance within the limits of regulatory capital requirements (SCR).
**Thesis 3** IORP Directive Reporting Requirements will become a new big reporting challenge for pensions.

<table>
<thead>
<tr>
<th>Facts</th>
<th>Challenge</th>
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<tr>
<td>Revised version of the IORP¹ Directive in 2016</td>
<td>▪ Fund investments for pensions are subject to tightened reporting requirements.</td>
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<td>Solvency standards acc. SII ultimately dropped²</td>
<td>▪ Content and formats unknown (to be defined by EIOPA).</td>
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<td>Sound processes for pensions management to better protect beneficiaries by:</td>
<td>▪ Different reporting requirements likely depending on jurisdiction → approx. 40 different pension schemes across EU</td>
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<td>▪ new governance requirements e.g. for risk management</td>
<td>➡ Asset Manager will face a large variety of local data and reporting requirements</td>
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<td>▪ self-assessment of risk-management systems</td>
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<td>▪ strengthening supervisory oversight</td>
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<td>Concrete design of requirements in the responsibility of EIOPA</td>
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<td>Consideration of national specifics of pension schemes recommended by EIOPA³</td>
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¹ IORP = Institutions for Occupational Retirement Provision which was issued by the European Commission in 2003
Investor Regulation

... creates investment restrictions for investors.

... leads to limits, targets, reporting obligations for investment funds.

... stipulates investment guidelines, investment processes, client reporting.

... requires consistency of data and methods across the value chain.

Dimensions

- Investment restrictions (e.g. for funds of HQLA, low SCR funds)
- Additional limits / thresholds for ratings, maturities, sectors and others
- Maximum consumption of regulatory capital (if applicable)

Challenges

- Pre-/Post-trade monitoring of guidelines that base regulatory categories
- Evaluation of the performance relative to a benchmark without such restrictions
- Evaluation of active management relative to e.g. additional regulatory capital requirements
Hypotheses…

- Investors will **integrate regulatory reporting with risk and performance analytics**.

- Asset management will be appraised by both classic (e.g. Sharpe Ratio, Treynor Ratio) and regulatory key figures, based on the **same data and methods**.

- Asset managers need to monitor both **attribution of investment performance** as well as **contribution to capital commitment**.

Data management, analytics and reporting competences are required to gain a **competitive edge**.
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