



Effective Fund Oversight: Finding the Right Balance



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Trust is a critical component of outsourcing relationships. However, as the outsourcing model matures, it has become clear that finding the balance where trust and control go hand in hand is the foundation of a successful relationship.

Finding the right level of oversight for outsourced fund accounting is a case in point. Recent exposures of inaccurate fund valuations in the US market suggest that too much emphasis has been placed on trust and too little on control. Service providers have taken on responsibility for delivering critical and complex functions, but are often expected to bear sole responsibility for quality.

Not surprisingly, when fund valuations are compromised; it attracts the attention of clients, shareholders, internal pricing boards and regulators. Almost all mature markets now have some form of directive regarding pricing practices including the requirement for oversight of outsourced functions. And while regulators are focused on fund valuations, internal risk groups are increasingly focused on assurance and monitoring on service providers' performance.

It is emerging best practice that clients of service providers participate directly in the control framework with an effective oversight function providing a second layer of protection to both parties and their respective stakeholders.

This trend is in contrast to previous market practices where independent oversight has been minimal and not necessarily undertaken in a timely way or with a desirable level of granularity.

Asset managers now have choices to make in finding the right balance for effective oversight over pricing methodologies and NAV calculation.

For one thing, there is often more than one service provider involved. With different outsourcing arrangements in place, there will also be different practices, different data sets and different operational procedures to oversee.

Then there are the timeframes involved. If inaccuracies and errors in the NAV calculation are not caught in time, the resulting costs can spiral rapidly. So the pressure is on to review, validate and react to any anomalies within a very short timeframe.

Asset managers are already walking a tightrope between these two demands. If they undertake too little oversight, they are potentially exposed to reputational damage, funds outflows, regulatory breaches and even potential fines. If they opt for too much or inefficient oversight, they may end up duplicating the activity of the service provider, which dilutes the benefits anticipated in the outsourcing business case.

Striking the right balance for effective oversight involves achieving a number of key features.

First of all, it must offer transparent, timely oversight without adding to the operational burden. Analysts are no longer expending effort on collecting, normalizing and manually reviewing data to deadlines; instead they focus on analyzing the outliers.

Second, it must enhance accuracy by handling oversight of the entire process from end to end: no data slippage,

no information leakage and no glued-together processes.

Third, it must evidence the creation of the audit trails that regulators or other stakeholders may demand.

Finally, and most importantly, it must provide a level of independent review, without which firms may not be achieving an appropriate level of control.

This is what effective oversight should look like.

The requirement to achieve effective oversight efficiently has caused asset managers to view fund oversight as a core business activity requiring automation. And with Milestone Group's pControl Fund Oversight, this is what asset managers get.

pControl Fund Oversight independently verifies the Actual NAV and unit price values provided by the outsourced partner, and compares them to an independent Expected NAV and unit price. Its sophisticated benchmarking facility also allows it to compare against multiple indices for accurate analysis of mixed portfolio and complex products.

Data management capabilities support collecting and combining multiple service providers and data streams, with the ability to recognize, validate and present the relevant fund valuation data, while monitoring SLA performance and outlier exceptions

Above all, pControl Fund Oversight provides the foundation on which real trust and mutual protection between asset managers and their service providers can be built. In today's capital markets, that's a valuable commodity. **MME**