# Doing More with Less – Exception-Based Processing

*By Mark Spanos*
*Mutual Fund Accounting Product Manager*
*Eagle Investment Systems*

Financial organizations continually strive for a straight-through processing (STP) model, where the data is entered into a single system once, and then sent via interface to multiple downstream systems within the investment architecture.

For mutual fund accounting, standard operating procedures for fund accountants are to run reports and compare the results to another report. This is a tedious, manual and time consuming model that is not sustainable for firms trying to do more with less. Firms must replace these manual operations with systematic processes in order to remain competitive. Automation not only reduces the time spent reconciling data, but it also lessens the operational risk associated with humans performing tasks that could otherwise be automated. Firms simply cannot afford to have people reviewing all potential exceptions, which may never be exceptions, and must rely on systems to highlight potential problems based on rules and tolerances that are applied to a transaction, calculation, ledger balance, NAV, or yield impact.

STP requires robust systematic capabilities to handle exceptions without manual intervention. Systems that were designed for manual transaction entry are difficult to deploy in a STP architecture because they have weak exception processing capabilities. Simple error processing, found in most contemporary accounting systems, may identify a transaction problem and flag errors on a screen, which then requires manual corrections.

A relevant example in the securities accounting area is the order in which trades for the same security position are recognized. The order is important because it determines the cost and the realized gain or loss on the position. Most accounting conventions require security trades to be recognized in ascending trade date order. However, trades will often arrive at the accounting system out of order. Accounting systems designed for manual entry usually recognize the out of order problem, but force a manual cancel and re-entry of the trades in the correct order. An accounting system designed for STP will recognize the out of order problem and automatically back out and reprocess the trades without manual intervention. STP systems require more sophisticated exception processing capabilities. STP system architectures include inference engines capable of analyzing a transaction problem and selecting a processing solution automatically.

The shortcomings of many legacy portfolio accounting systems are related to new complex investment types, complex corporate actions, and lack of regulatory support. Moreover, they aren't STP enabled and lack a true workflow exception-based processing tool. Risks can be avoided through automation when relevant fund information is presented to the end user in real time, in a manner that is understandable and direct action can be taken to solve the problem. When this information is presented in an operational dashboard, with drill down capability and multiple dimensions of review (by fund, group of funds, or by securities across funds or business function), all operations levels can view the fund status in real time throughout the day.

Automated exception-based processing reduces time, expense and the number of resources required for reconciling and validating critical investment data. Through automation, mutual fund companies can drive up their fund accounting ratios and grow operations without increasing staffing. In today's economic environment, this is what firms are seeking but are seldom finding. When firms are able to achieve an exception-based STP model, and consolidate systems and operations onto a common platform, middle- and back-office expenses can be controlled in both up and down markets. Firms are able to realize additional scale by consolidating business lines and operations teams for fund accounting, fund administration, fund tax, complex securities processing (such as bank loans), wash sales, and front office investment books and records (IBOR) onto one vendor platform.

Doing more with less doesn't appear to be a theme fading away in the near future and financial companies should seek out vendors that enable streamlined processes, offer integrated functionality, and provide services that allow the business to focus on its main objective of growing the business without growing its staff or infrastructure.

*Eagle Investment Systems is committed to helping financial institutions worldwide grow assets efficiently with its innovative portfolio management suite of data management, investment accounting and performance measurement solutions that are delivered over its secure private cloud, Eagle ACCESS. Eagle Investment Systems (www.eagleinvsys.com) is a subsidiary of BNY Mellon.*