Simplifying Monthly Reporting

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Financial organizations are pressured to shorten monthly reporting timeframes to achieve operational efficiency and reduce the time to produce detailed financial summaries. However in doing so, processes need to be created to ensure that information is timely without creating operational risk through inaccuracies in the data.

Financial statements concisely outline financial activities of a business, individual or any other entity presenting financial information. To automate this production in a timely and accurate manner, fund companies and fund administrators require advanced investment accounting systems. For United States mutual funds operating under the SEC 1940 Act ('40 Act), daily net asset values (NAV) are produced on a trade date +1 (TD+1) set of security positions and market values. This means that these trades are processed on a TD+1 basis falling into the proper NAV period. The industry seems to accept that a fund's portfolio data (positions, transactions, and ledger postings) are not current on any given business day. However, this is not true for monthly, quarterly, semi-annual, and annual reporting periods. In month-end reporting, trades that occur on month-end—typically included next day—are required to be included in month-end reporting.

To accommodate this requirement, firms have implemented varying month-end operating procedures, manual workarounds or entire subsystems. All of these options present operational risk and difficulty to delivering pertinent information accurately and timely. Varying month-end operating procedures may mean allowing transactions to be processed on month end on a TD+0 basis. This inherently introduces risk of missing daily NAV deadlines, as trading is often not complete until market close. Some firms implement operating procedures where month-ends are business as usual, but fund accountants manually cancel and rebook trades that occur as-of month end. Re-opening closed periods and manually processing transactions introduces risk of incorrect data entry and transactions being inadvertently put into the re-opened month-end period. Others are implementing subsystems, which create overhead costs from a technology and operations perspective. The data also needs to be moved from the primary NAV book of record system, to the month-end sub system. This can create issues around missing transactions and additional overhead in reconciling the two systems.

The risk and cost associated with manually producing monthly information make it necessary to implement investment accounting systems that automate this otherwise arduous process. In systems where as-of month-end reporting is inherently supported, the month end has its own distinct accounting periods and exceptions dashboard. Funds should allow for separate and distinct period closes where the daily periods are closed business as usual. However month-end periods are left open several days past month end to systematically capture any as-of processing.

When all system transactions, positions, and general ledger postings have a daily and monthly accounting date stored, it is much easier to generate reporting based on either of these dates. With data stored at the appropriate level, a separate month-end net asset value (NAV) can be calculated and stored reflective of month end as-of postings along with separate security pricing. This NAV can be used in validations verifying the as-of activity with tolerances defined by the business. Also important is the ability to monitor all of this activity via an exceptions dashboard, which provides end users a real time snap shot of this activity. The final output to automated monthly processing is a report package that can now be generated on this new dimension of data. When accounting has the ability to run all reports as of any date, or the month-end date which captures all of a fund's as-of activity based on the above workflows and operating models, true efficiencies can be realized. It also allows for activities to be more easily monitored and reconciled. The time and effort to deliver period-end reports to clients is drastically reduced.

Increasing efficiencies and reducing risk continue to drive investment firms to enhance or in some cases replace their back-office platforms. Next generation systems that manage multiple requirements continue to gain traction with firms that require more automation and innovative technology. Flexible accounting systems that can help reduce cost and risk are poised to be the platforms of choice in this era of doing more with less.

Eagle 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℠.