Towards accrued transparency in the fund industry

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XBRL XXV

HOSTED BY XBRL JAPAN

TO THE NEXT LEVEL OF BUSINESS REPORTING. AND BEYOND.

XBRL
eXtensible Business Reporting Language

Context

- IBM Faculty award project – 2011
    - Exploratory research
    - Potential long-term impact on product/service development
    - Focuses on key industries
    - This case : Luxembourg – financial services : 30% of GDP
- Launched early 2012

Main objectives

- Identify and develop a set of KPIs :
- Specific to the investment fund industry
- Predictive of corporate performance (forward-looking)
  - ✓ Reflect the corporate strategy
  - ✓ Reflect the corporate value creation process
- Non-financial (complement and supplement financial performance)
- Useful for management and reporting activities
- Relying on the concept of intellectual capital, as a framework to define operational performance indicators
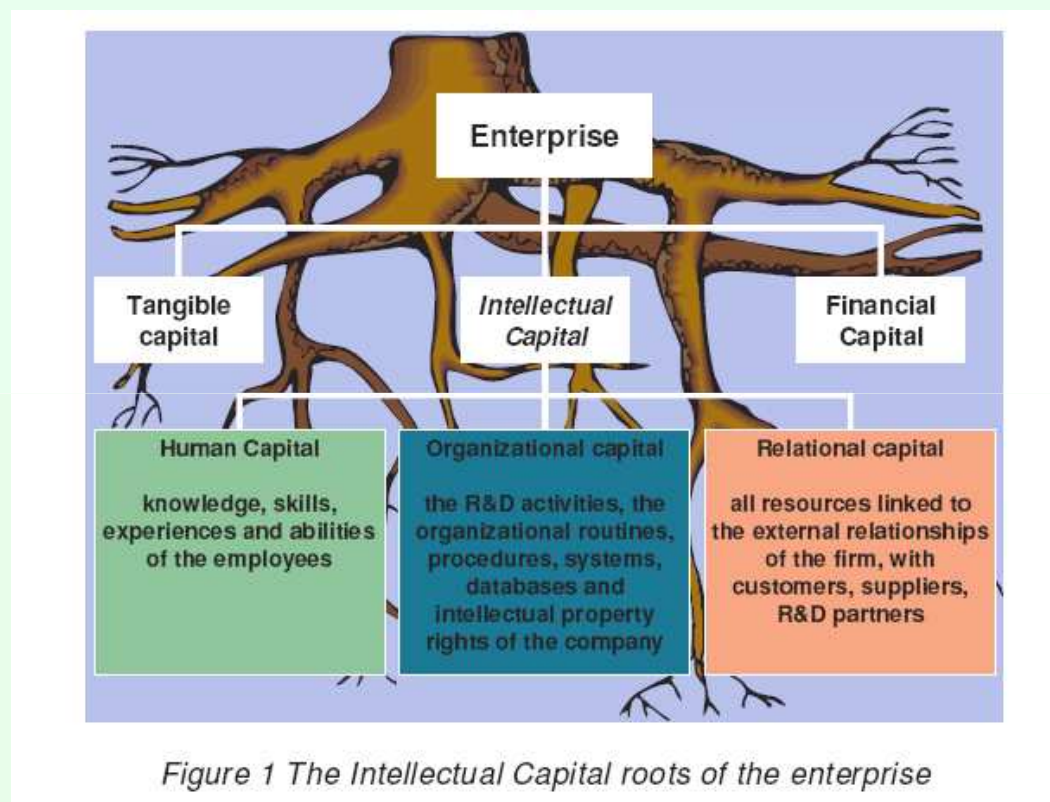
Intellectual capital – introduction to the concept

Figure 1 The Intellectual Capital roots of the enterprise

Source: Ricardis, European Commission, 2006

Performance: Reporting & Managing

- Management perspective:
  - What are our actual performance drivers ?
  - How to leverage performance ?
  - What is the contribution of a specific activity/process to value creation

  … in knowledge-intensive contexts

  -> **KPI for monitoring & managing purposes, specific to the firm**

- Reporting perspective:
  - Increasing need for transparency and accountability
  - Criticism of the current accounting framework, unable to grasp « real » value of firms and exclusively backward-looking
  - Initiatives in the direction of additional reporting of non financial information (IASB Mgmt commentary, guidelines from associations etc.)

  -> **KPIs for external purposes allowing comparability**

Enterprise level

Company-Specific Intangible Indicators (no limit)

Sector level

Industry-Specific Intangible Indicators (10-20 max.)
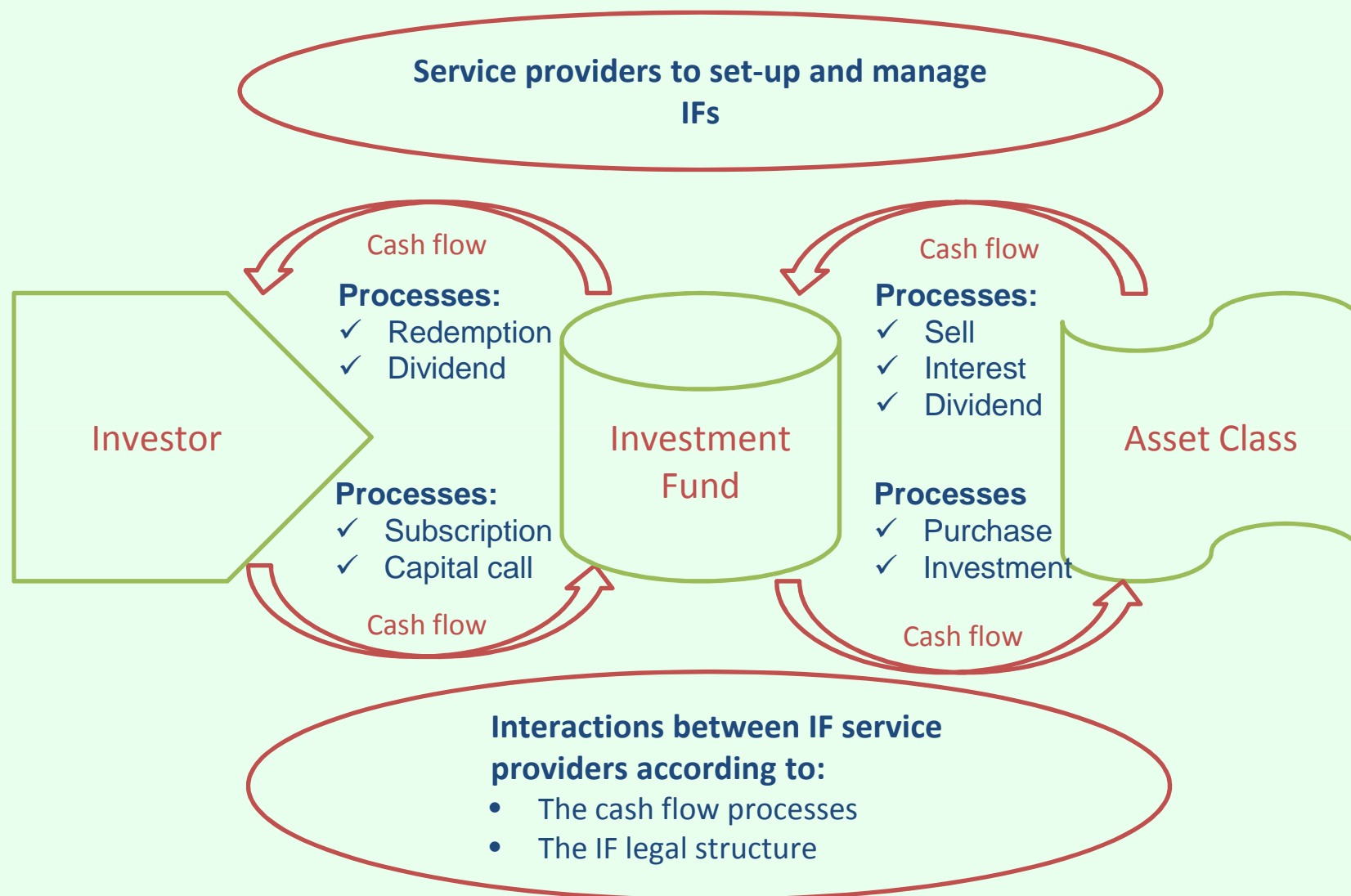
General level

Basic Intangible Indicators (3-5 max.)
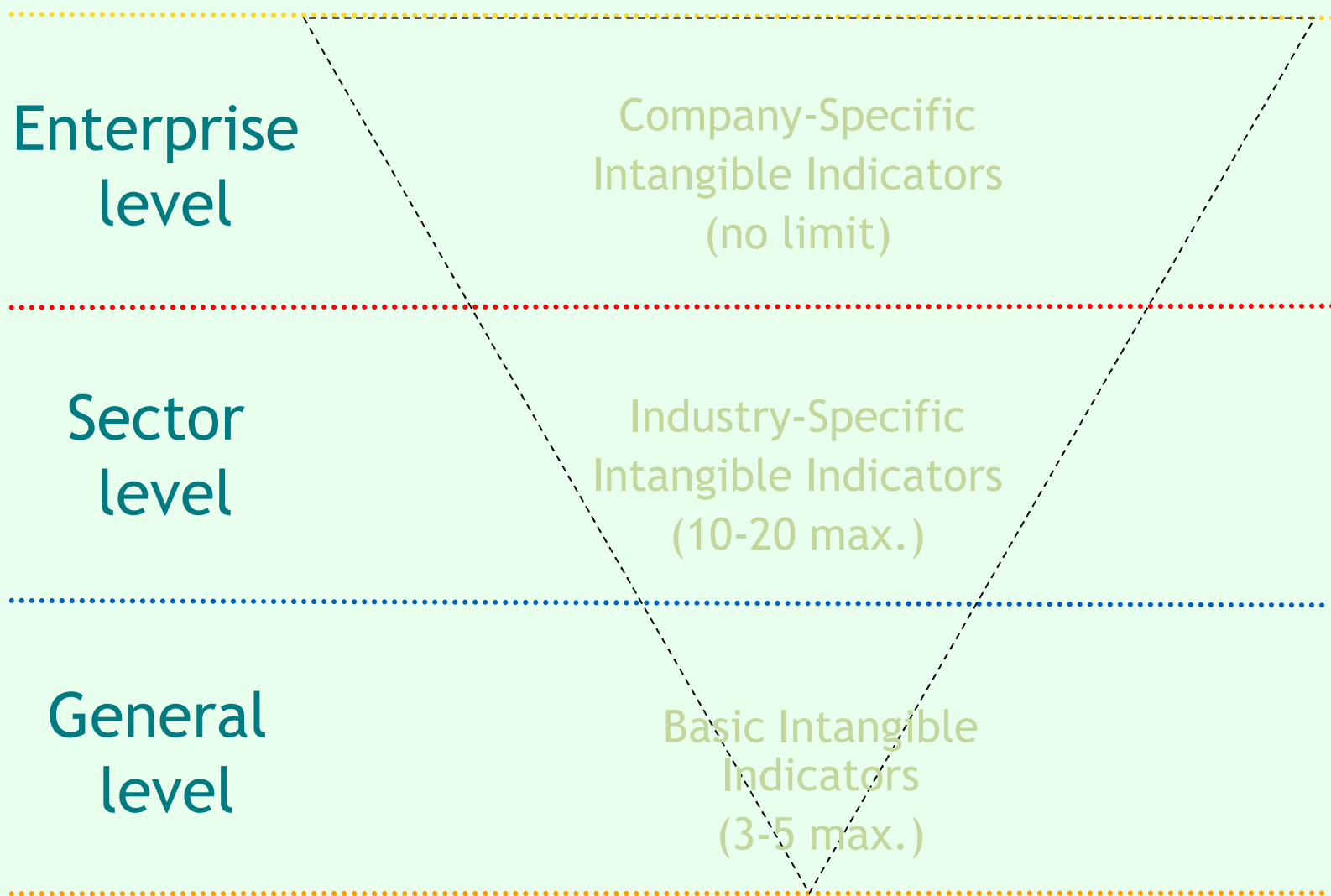
Reporting on Intangibles: combining comparability & specificity

Project overview
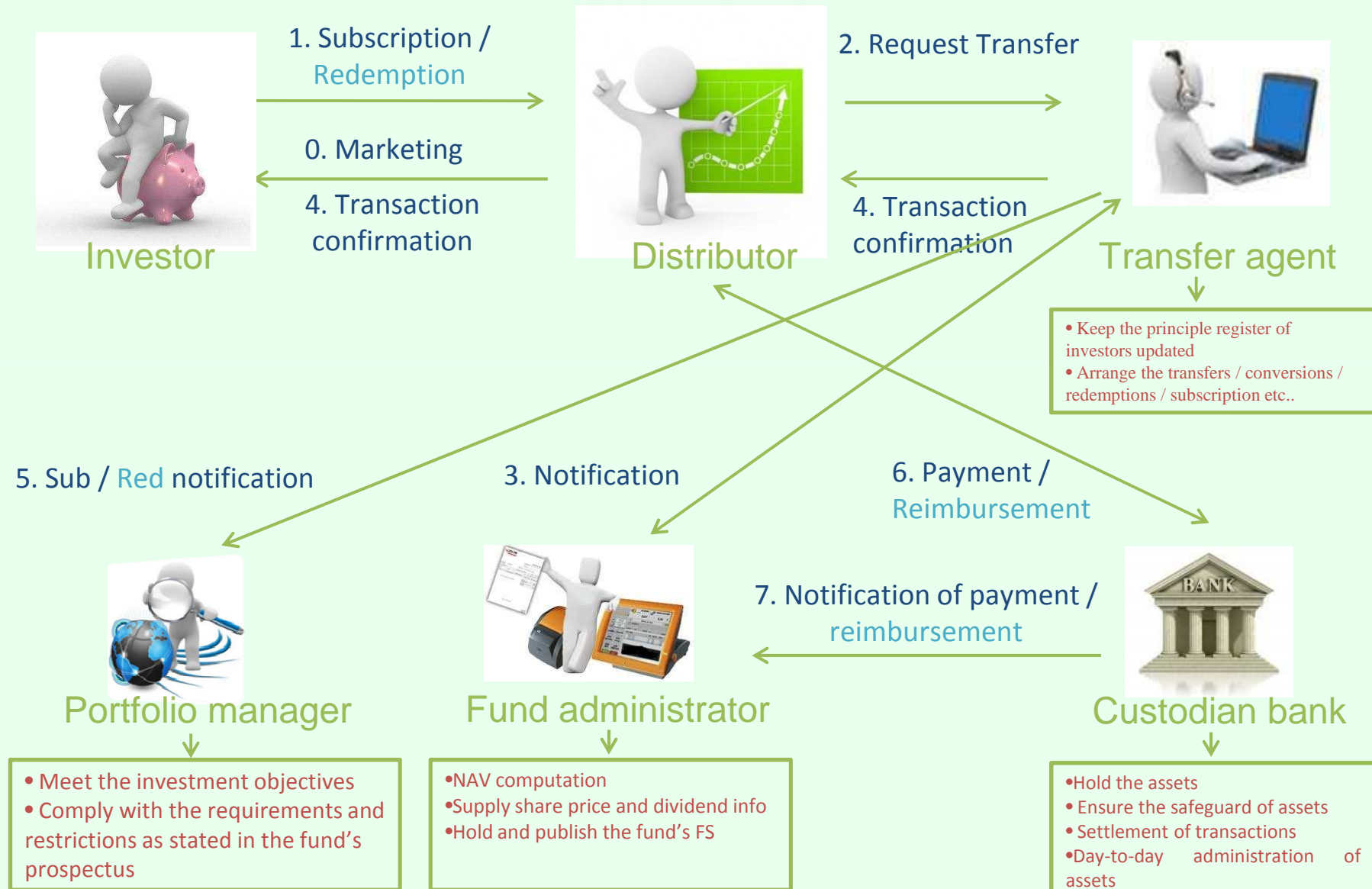
I. Value chain modelling
II. Selection of target sub-sectors
III. Identification of the set of measures (KPIs)
IV. "XBRL-ization" of the set of KPIs
V. Local and international promotion and dissemination of the research results

Launched 1.1.2012

Interactions between IF service providers

Service providers to set-up and manage IFs

Cash flow

Cash flow

Processes:
- ✓ Redemption
- ✓ Dividend

Processes:
- ✓ Sell
- ✓ Interest
- ✓ Dividend

Investor

Investment Fund

Asset Class

Processes:
- ✓ Subscription
- ✓ Capital call

Processes
- ✓ Purchase
- ✓ Investment

Cash flow

Cash flow

Interactions between IF service providers according to:
- • The cash flow processes
- • The IF legal structure

Subscription / redemption process

Investor

Distributor

Transfer agent

1. Subscription / Redemption

0. Marketing

4. Transaction confirmation

2. Request Transfer

4. Transaction confirmation

- Keep the principle register of investors updated
- Arrange the transfers / conversions / redemptions / subscription etc..

5. Sub / Red notification

3. Notification

6. Payment / Reimbursement

7. Notification of payment / reimbursement

Portfolio manager

Fund administrator

Custodian bank

- Meet the investment objectives
- Comply with the requirements and restrictions as stated in the fund's prospectus

- NAV computation
- Supply share price and dividend info
- Hold and publish the fund's FS

- Hold the assets
- Ensure the safeguard of assets
- Settlement of transactions
- Day-to-day administration of assets

Purchase / sell process

1. Purchase / Sell instruction

Portfolio manager

3. Notification

4. Payment /
security delivery
instruction

7. Notification
of payment /
reimbursement

3. Notification

Custodian bank

5. Payment / Security
delivery

7. Notification of payment
/ reimbursement

- Hold the assets
- Ensure the safeguard of assets
- Settlement of transactions
- Day-to-day administration of assets

6. Asset delivery /
Payment

Fund administrator

Broker

2. Purchase / Sell

Assets on the
market

- NAV computation
- Supply share price and dividend info
- Hold and publish the fund's FS

II. Selection of target sub-sectors

- Approach based on:
  - Market analysis
  - Value chain modeling
  - Impact assessment of key external factors such as regulatory changes (UCITS IV and V, AIFMD)
  - Interviews with key informants, mainly policy-makers and regulators
- Confrontation to professional associations and key market actors

- Literature – scarce in the field of intangible performance measurement and management, in this industry

II. Selection of targeted actors

- Back-office activities:
    - ✓ Fund administrators
    - ✓ Custodian / Depository banks
    - ✓ Transfer agents
    - ✓ Management companies

- Their business model is driven by:

    - ✓ The service quality
    - ✓ The "delivery on time"
    - ✓ The flexibility
    - ✓ The compliance with financial regulations

Fund administrators

Main tasks:

- Fund accounting
- NAV calculation
- Reporting

Particularities of the business:

Business complexification due to:

- Regulations
- Clients needs
- New complex products

Importance to:

- Comply with regulations
- Ensure high quality services
- Mitigate risks
- Make efficiency gains

Human Capital (medium):

Employees' expertise (++)

Structural Capital (high):

Right mix between organization and automated processes (+++)

Processes codification (++)

Level of harmonization (+++)

Relational Capital (medium):

Reputation and client satisfaction (++):

Custodian banks

Main tasks:

- Custody / keep control of assets
- Settlements of transactions
- Day-to-day administration of assets

Particularities of the business:

- Good knowledge and understanding of the clients' business
- Operations may have low technical requirements (e.g. purely banking operations)
- Possibility of high volume transactions
- Possibility of high frequency transactions

Importance to:

- Comply with regulations
- Ensure high quality services
- Mitigate risks
- Make efficiency gains

Human Capital (low):

Employees' expertise (+)

Structural Capital (high):

Right mix between organization and automated processes (+++)

Processes codification (++)

Level of harmonization (+++)

Relational Capital (medium):

Reputation and client satisfaction (++):

Transfer agents

Main tasks:

- Keeping the principle register of investors updated
- Arranging the transfers / conversions / redemptions / subscription etc.

Particularities of the business:

- Good knowledge and understanding of the fund service providers set-up
- Possibility of high volume transactions
- Possibility of high frequency transactions

Need to:

- Comply with regulations
- Ensure high quality services
- Mitigate risks
- Make efficiency gains

Human Capital (low):

Employees' expertise (+)

Structural Capital (high):

Right mix between organization and automated processes (+++)

Processes codification (++)

Level of harmonization (+++)

Relational Capital (medium):

Reputation and client satisfaction (++):

Management companies

Main tasks:

- Fund set-up
- Risk management
- Legal service
- Relationship management

Particularities of the business:

- The tasks may be very technical
- Need to be generalist and specialist
- Clients with different particularities (geography / technical degree)
- The client's requests and operational problems differ according to the fund specificities
- Importance to reallocate the resources on a case basis
- Comply with regulations
- Ensure high quality services

Human Capital (high):

Employees' expertise (+++)

Employee's agility (+++)

Employees' cohesion (+++)

Structural Capital (low):

Low level of codification (+)

Innovation & technological capabilities (+++)

Relational Capital (high):

Importance of the professional network (+++)

Reputation and client satisfaction (++):

Summary: IC by fund service providers

ManCo	Fund administrator	Transfer agent	Custodian bank

ManCo

Human Capital (**high**)
- Employee's expertise **+++**
- Employees agility **+++**

Structural Capital (**low**)
- Right mix between non– and codification of processes

Relational Capital (**high**)
- Professional network **+++**
- Client satisfaction **+++**
- Reputation **+++**

↓

- Fund set-up
- Relationship management
- Risk management
- Legal services

Fund administrator

Human Capital (**medium**)
- Employee's expertise **++**

Structural Capital (**high**)
- Right mix between organization and automated processes

Relational Capital (**medium**)
- Client satisfaction **++**
- Reputation **++**

↓

- NAV computation
- Supply share price and dividend information
- Hold and publish the fund's FS

Transfer agent

Human Capital (**low**)
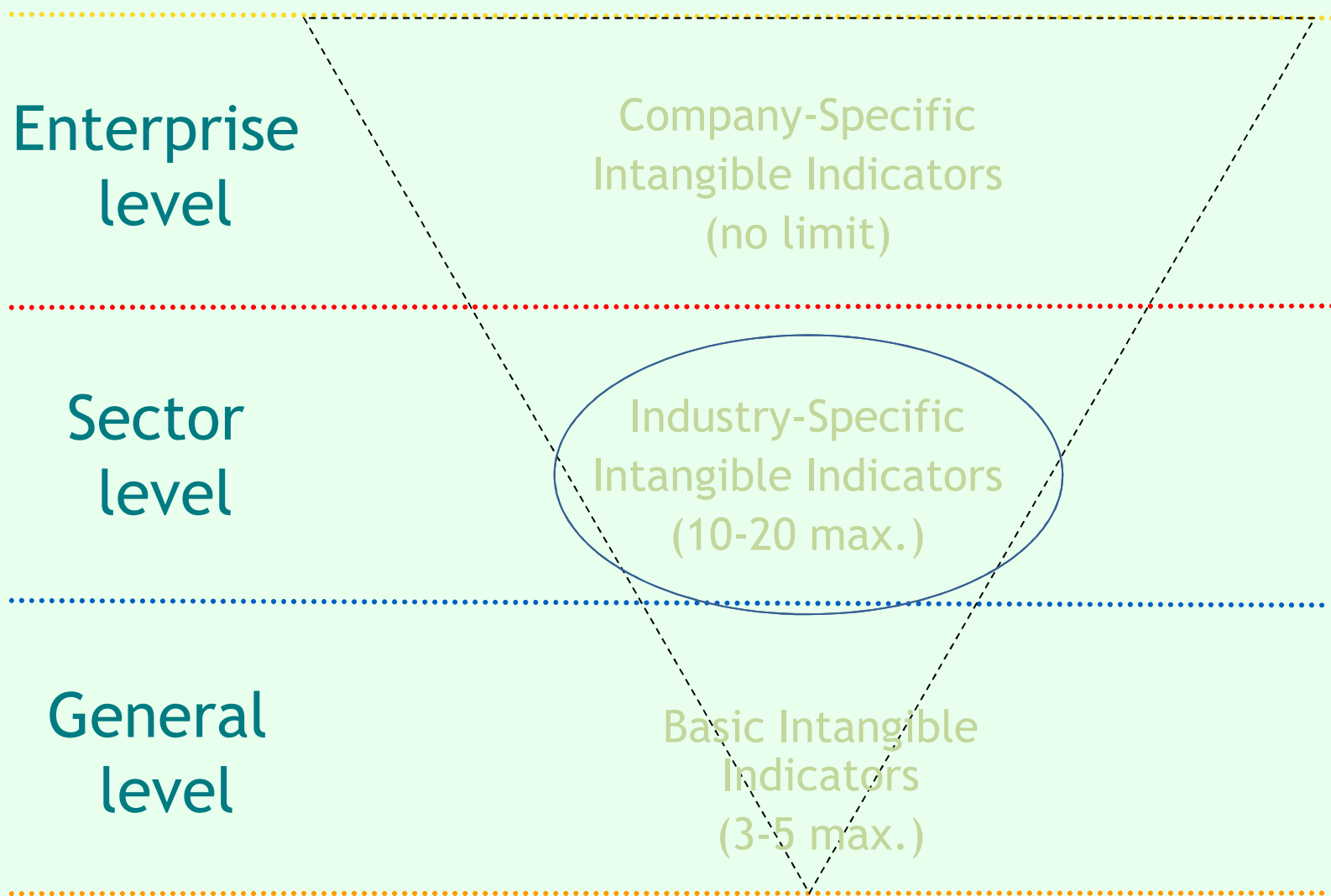- Employee's expertise **+**

Structural Capital (**high**)
- Right mix between organization and automated processes

Relational Capital (**medium**)
- Client satisfaction **++**
- Reputation **++**

↓

- Keep the principle register of investors updated
- Arrange the transfers / conversions / redemptions / subscription etc..

Custodian bank

Human Capital (**low**)
- Employee's expertise **+**

Structural Capital (**high**)
- Right mix between organization and automated of processes

Relational Capital (**medium**)
- Client satisfaction **++**
- Reputation **++**

↓

- Hold the assets
- Ensure the safeguard of assets
- Settlement of transactions
- Day-to-day administration of assets

Enterprise level

Company-Specific Intangible Indicators (no limit)

Sector level

Industry-Specific Intangible Indicators (10-20 max.)

General level

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Company-Specific
Intangible Indicators
(no limit)

Industry-Specific
Intangible Indicators
(10-20 max.)

Basic Intangible
Indicators
(3-5 max.)

Human Capital

Employees' expertise:

- Average expenditure in trainings, by type of employee
- Average number of trainings followed per year, by type of employee
- Level of autonomy: % of projects outsourced to a consulting firm

Employees' agility:

- % of operations relying on manuals, processes, database etc.

Employees' operational capability:

- Size of the staff

Employees' cohesion:

Company-Specific Intangible Indicators (no limit)

Industry-Specific Intangible Indicators (10-20 max.)

Basic Intangible Indicators (3-5 max.)

Structural Capital

Right mix between organization and automated processes:

- % of high volume processes which are fully STP
- % of high material risk processes which are fully STP
- Number of errors and timing problems by process
- Number of clients which provide data under automated systems (e.g. SWIFT)

Level of codification:

- % of operations relying on manuals, processes, database etc.

Level of harmonization:

- Number of models used by service delivered / Number of clients for the related service
- Number of IT platforms used / number of national entities
- % of harmonized processes (between the different national entities)

Company-Specific
Intangible Indicators
(no limit)

Industry-Specific
Intangible Indicators
(10-20 max.)

Basic Intangible
Indicators
(3-5 max.)

Relational Capital

Reputation and client satisfaction:

- Number of formal complaints
- Number and importance of clients' requests (new service / service improvement / etc.)
- % of KPIs "client" which are respected
- Clients' fidelity over years

Professional network:

- Size of the professional network
- Diversity of the professional network (by type of service providers)

A beta WICI Framework
(already tagged with XBRL - *www.worldici.com*)

0 Corporate profile and business attributes
0-1 Industry overview
0-2 Duration and results per business unit
0-3 Business cycle per business unit
0-4 Competitive analysis

Past ⟶ **Current** ⟶ **Future**

A Business landscape A-1 Business landscape **b Strategy** b-1 Corporate strategy summary b-2 Vision and mission b-3 Strengths b-4 Weaknesses b-7 Goals and objectives b-8 Corporate strategy b-9 Business unit strategies b-10 Business portfolio **c Resources and processes** c-1 Resources and processes summary c-2 Resource forms c-3 Key processes c-4 Value drivers	**d Performance** d-1 Performance summary d-2 GAAP-based d-3 GAAP-derived d-4 Industry-based d-5 Company-specific d-6 Capital market-based	**A Business landscape** A-1 Business landscape summary A-2 Economic A-3 Industry analysis A-4 Technological trends A-5 Political A-6 Legal A-7 Environmental A-8 Social **C Resources and processes** C-1 Resources and processes summary	**B Strategy** B-1 Corporate strategy summary B-2 Vision and mission B-5 Opportunities B-6 Threats B-7 Goals and objectives B-8 Corporate strategy B-9 Business unit strategies B-10 Business portfolio **D Performance** D-1 Financial prospects summary

Next steps

III. Identifications of the set of measures (KPIs)
   – Setting up the focus groups

IV. "XBRL-ization" of the set of KPIs

V. Local and international promotion and dissemination of the research results
   – Communication strategy to be defined at local and international levels

Thank you for your attention and for your feedback!