

IBOR finds signals among the noise

AN INVESTMENT BOOK OF RECORDS HAS BECOME THE MOST EFFICIENT SOLUTION FOR MANAGING A COMPLEX WEB OF SERVICE PROVIDERS IN REAL TIME – AND PROVIDING EFFICIENT OVERSIGHT TO MEET REGULATORS’ NEEDS. BY **BEN PUMFRETT**, HEAD OF PRODUCT AND PROFITABILITY AT RBC INVESTOR & TREASURY SERVICES.

THE BIBLE. THE GOLDEN RECORD.

It is not hard to see why asset managers describe their investment book of records (IBOR) in such reverent terms. It allows them to see all their holdings across different fund ranges, mandates and cash balances in one place, allowing them to make investment decisions, forecast cashflows and manage liquidity. It sits at the heart of their business, supporting the front office and operations.

The vital attribute of an IBOR is that it is service provider-agnostic, providing a single place to make sense of the web of underlying back-office relationships in real time. The front office is increasingly demanding more timely and accurate data – for portfolio management, order management and risk systems – at a time when the integration of service providers is expanding.

Many asset managers are re-evaluating their operating models and looking for ways to unlock data. Some are opting to outsource middle-office functions, driven by a number of factors such as scalability. According to the RBC Investor & Treasury Services (RBC I&TS) 2021 Asset & Wealth Manager Survey, “scalability” is the top driver (51%) as managers set out to grow their businesses through new products, new markets or both.

Asset managers traditionally viewed their operating models as a competitive advantage. However, consolidating feeds internally from multiple providers

is expensive to maintain and upgrade, meaning that, in many cases, legacy systems are no longer fit for purpose.

Portfolio managers need to factor important intraday developments such as corporate actions or income, cash collateral, and subscriptions and redemptions into their investment decisions. They need real-time, not end-of-day, reports. They need to ensure data from multiple sources is accurate and immediate, with a guarantee that all necessary checks are being performed. The demands have expanded so much that they are looking to share the expense of cutting-edge technology by enlisting service providers with standardised but flexible products.

From a recent client event, we identified the five biggest concerns among asset managers.

The first is the sheer volume of data available that needs to be validated, with exceptions identified and managed daily. Asset managers are feeling overwhelmed about the governance requirements associated with maintaining multiple provider relationships. They worry about the reliability of technology that generates business-critical metrics such as net asset value (NAV). They are concerned about fulfilling the increasing operational oversight requirements imposed by regulators. They fret about managing the various nuances of oversight in multiple jurisdictions.



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An IBOR solution can help asset managers in all these areas and enable them to make more informed decisions. Service providers such as RBC I&TS have been investing in technology that standardises integration interfaces and allows data to flow in a smooth and timely manner. As soon as an asset manager executes a trade, it appears in the IBOR.

Cash forecasting is central to liquidity management and the area of settlement is an ongoing area of development. We will see API-based technology lead to further integration of systems, especially due to the wave of consolidation and acquisitions taking place among asset managers.

In this environment, establishing and maintaining an enterprise-wide IBOR is a key element of what will be essential to successful front-office operations.

Enabling oversight

We are also likely to see further development of oversight models, with data control and validation the key components of achieving transparency. Regulators are insisting that asset managers have robust oversight arrangements in place to monitor external providers. IBOR technology can monitor providers and identify issues to mitigate risk in critical areas such as overdrafts or booking errors.

This technology is having a positive effect on industry practices, encouraging vendors to develop more innovative products. Clients are starting to take notice – inadequate monitoring could make it more challenging for asset managers to win investor mandates.

Asset managers need to work on exception-based processing to feel comfortable allowing data straight into their front office. Beyond data accuracy, the next level is generating insights. Such insights can be used to proactively trigger operational processes and

actions. For example, cash forecasting and historic settlement rates provide automatic insights into potential fail rates and can identify potential foreign exchange overdrafts.

Bolting together streams of data from custodians, transfer agents and other providers can result in a fragmented model that obscures oversight. To achieve scale and a robust oversight solution, data needs to be consolidated in a single place.

Another issue is retention of knowledge within an asset management business. Outsourcing *ad hoc* services and the inevitable turnover of internal staff means that knowledge can easily be lost. In such circumstances, how can asset managers effectively monitor the performance of all their partners? Regulators globally are pushing asset managers to demonstrate the efficacy of their oversight model: you can outsource the process, but you cannot outsource the responsibility.

Maintaining a solid oversight framework is a key to be able to actively monitor and challenge service providers. We are increasingly seeing asset managers looking to their service providers to understand the details of the process, so they can become more comfortable with the activities being performed.

Likewise, a consistent framework is essential. The combination of a diverse range of functions being performed by multiple providers inevitably leads to inconsistency; asset managers require a consistent, risk-based framework across all activities. If asset managers cannot rely on their oversight solution, they may be forced to manually repeat the process internally – which would undermine the benefits of outsourcing in the first place.

Renewing the middle office

An IBOR solution consolidates all data

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points into a single point of truth, concentrating efforts on resolving exceptions rather than wasting time identifying them. This is only possible with advanced technology that, realistically, only an IBOR solution can provide. The networking technology not only manages data but also has integrated visualisation tools and alert messaging.

Different people within asset managers have different oversight requirements, so flexibility is key. From a CEO that needs a holistic, high-level dashboard to the oversight team that needs granular information about specific functions, an IBOR can help. RBC I&TS' IBOR technology facilitates such multi-level transparency, with the ability to monitor all key performance indicators on a real-time basis. The technology makes it efficient for the client to absorb information, regardless of their requirements or risk appetite.

RBC I&TS has offered middle-office solutions for 16 years, and in the last three years we have been working hard to consolidate everything globally into a consistent, comprehensive and scalable solution. Our IBOR service can be used with any or all of our modular services, from trade management and platform management to corporate actions. Either way, IBOR is the final piece of the puzzle that consolidates the investment level view.