Investment Data Services

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Convergence of Regulatory and Analytical Reporting

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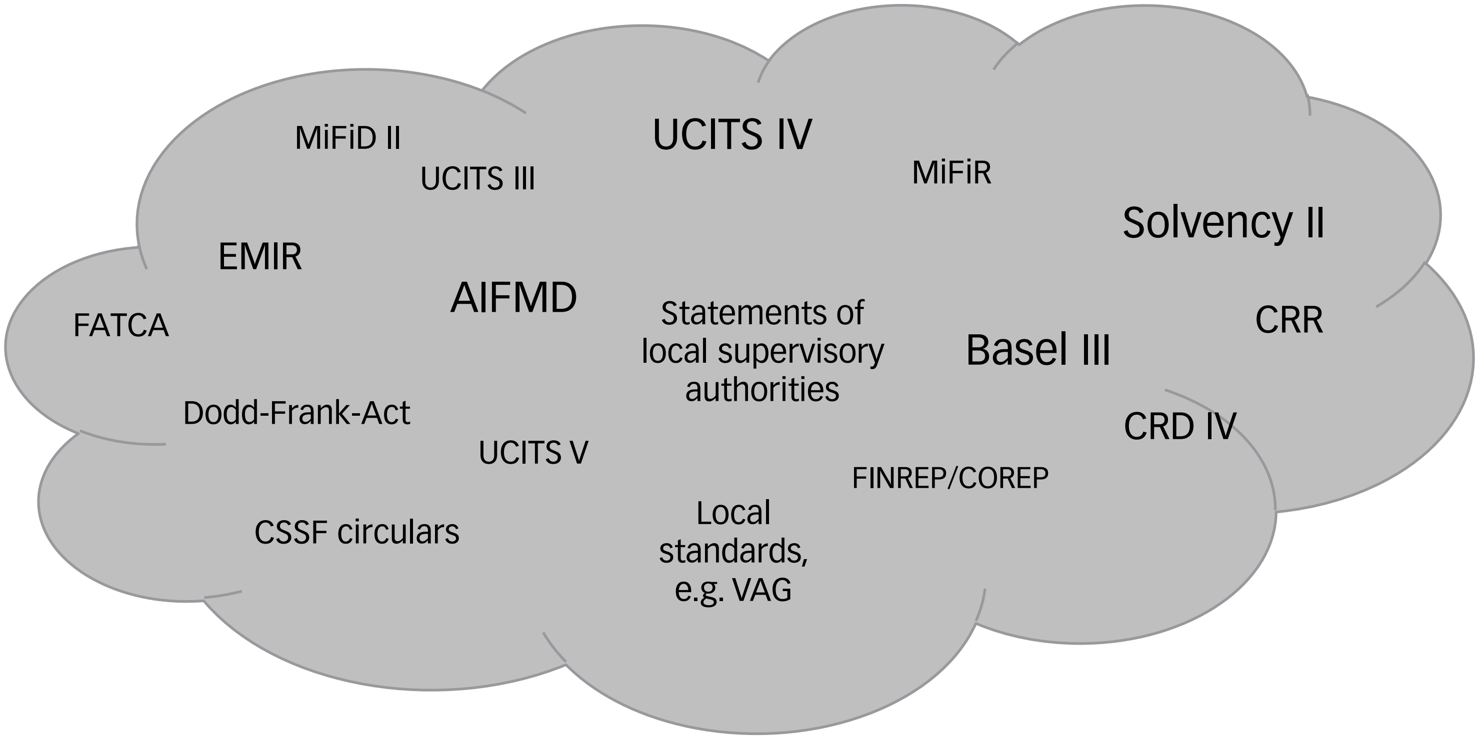
A company of Allianz

The financial sector sees comprehensive regulation.



No financial market, product or actor should remain unregulated[1].

[1] G20 London summit leaders' statement 2 April 2009

There are direct and indirect impacts for asset managers.

Asset Management Regulation

Regulation

EMIR	MiFiD	FATCA
Dodd Frank Act	UCITS	AIFMD

Formally obliged

Asset manager, fund administrators

Obligations of Asset Managers

Provide reports and data to e.g. local Supervisory Authorities, Trade Repositories and others

Asset Manager

Investor Regulation

Regulation

Solvency II

Basel III

IORP

Formally obliged

Investors, i.e. insurers, banks, pensions

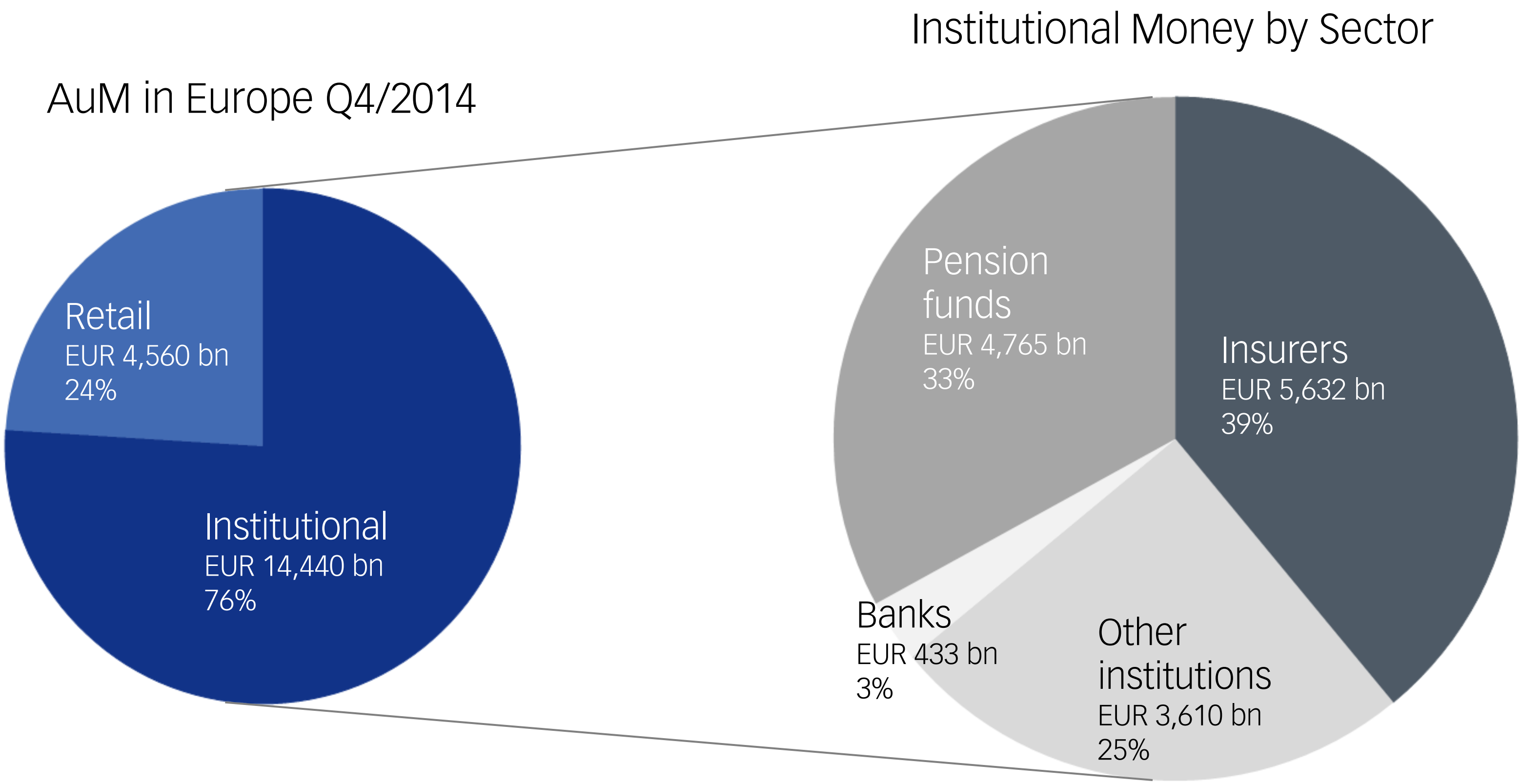
Obligations for Asset Managers

Provide investors or other asset managers with data as an input to create their reporting

Additional drivers of complexity

- Fund look-through
- Local supervisory policies
- Standards inconsistent through markets and sectors

Catering to the regulatory requirements of banks, insurers and pension funds is mandatory given the size of AuM.



*Source: EFAMA, Asset Management in Europe, Facts and Figures, 8th Annual Review, April 2015.

Thesis 1 CRR/CRD IV liquidity requirements for Banks will increase client reporting complexity.

Facts

Quantitative requirements for banks since 2015:

- LCR Liquidity Coverage Ratio LCR (30 days)
- Net Stable Funding Ratio NSFR (1 year)

Example

$$\text{LCR:} \quad \frac{\text{HQLA}^1}{\text{Cumulated net outflows in the next 30 days in a Basel III stress scenario}} \geq \text{factor}$$

Factor[2] =	60%	in 2015
	70%	in 2016
	80%	in 2017
	100%	in 2018

Challenge

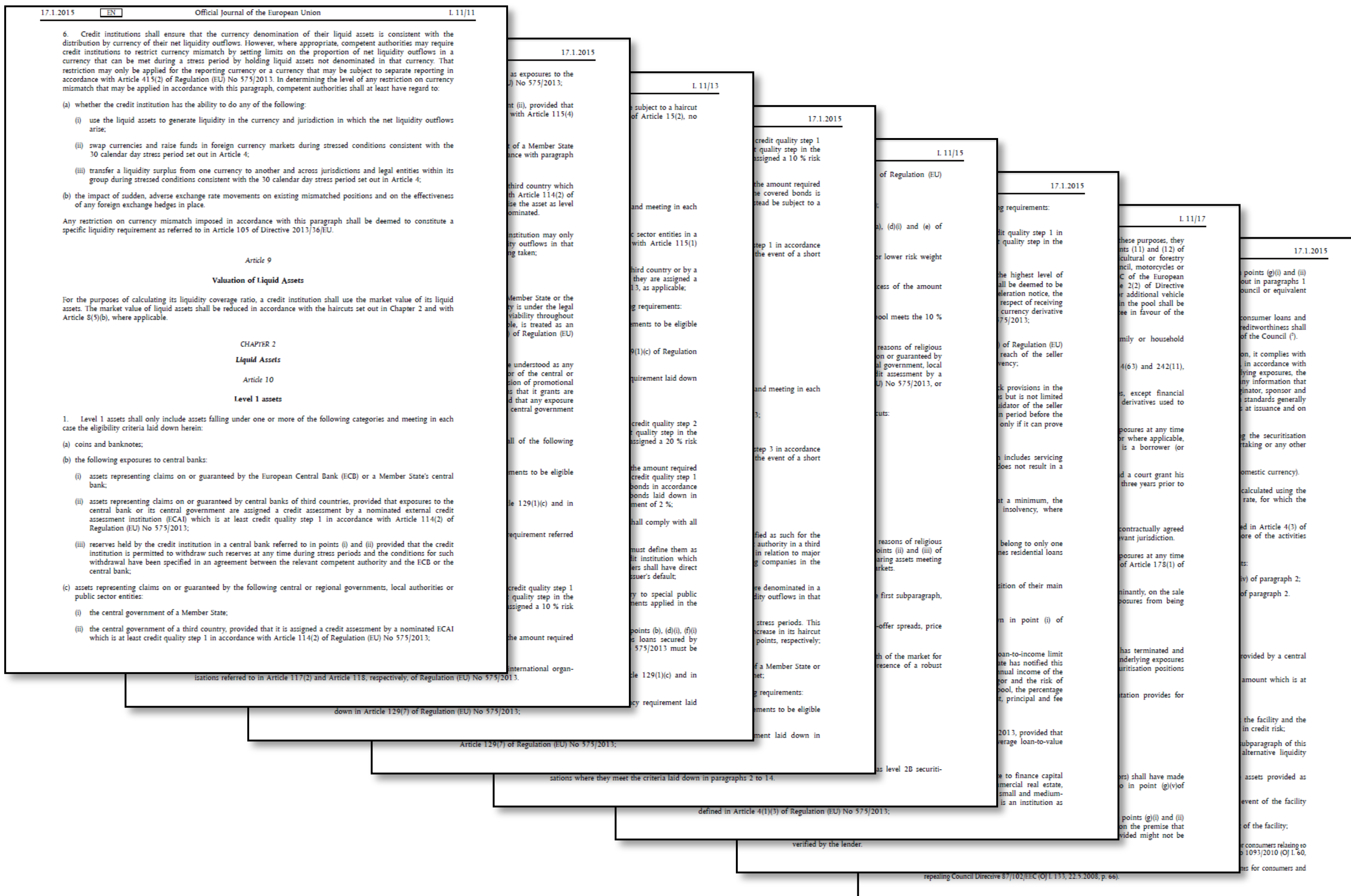
- Banks see increasing need for HQLA.
- Investments in funds (CIU) eligible under specific conditions (see CRR Art. 15).
- Classification of HQLA is complex:
  - 4 different classes of HQLA with individual thresholds
  - Complex selection criteria e.g. by issuers, sectors, instruments, CSA risk weights
  - Specific haircuts

→ Asset managers will face additional complex reporting requirements in the next years.

!

[1] High Quality Liquid Assets
[2] Commission Delegated Regulation (EU) 2015/61 … with regard to liquidity coverage requirements; Article 38 No. 1 “Transitional provision for the introduction of the liquidity coverage ratio”

Criteria to qualify assets as HQLA – 8 pages of small print to be translated into business and IT concepts



17.1.2015 EN Official Journal of the European Union L 11/11

6. Credit institutions shall ensure that the currency denomination of their liquid assets is consistent with the distribution by currency of their net liquidity outflows. However, where appropriate, competent authorities may require credit institutions to restrict currency mismatch by setting limits on the proportion of net liquidity outflows in a currency that can be met during a stress period by holding liquid assets not denominated in that currency. That restriction may only be applied for the reporting currency or a currency that may be subject to separate reporting in accordance with Article 415(2) of Regulation (EU) No 575/2013. In determining the level of any restriction on currency mismatch that may be applied in accordance with this paragraph, competent authorities shall at least have regard to:

(a) whether the credit institution has the ability to do any of the following:

(i) use the liquid assets to generate liquidity in the currency and jurisdiction in which the net liquidity outflows arise;

(ii) swap currencies and raise funds in foreign currency markets during stressed conditions consistent with the 30 calendar day stress period set out in Article 4;

(iii) transfer a liquidity surplus from one currency to another and across jurisdictions and legal entities within its group during stressed conditions consistent with the 30 calendar day stress period set out in Article 4;

(b) the impact of sudden, adverse exchange rate movements on existing mismatched positions and on the effectiveness of any foreign exchange hedges in place.

Any restriction on currency mismatch imposed in accordance with this paragraph shall be deemed to constitute a specific liquidity requirement as referred to in Article 105 of Directive 2013/36/EU.

Article 9

Valuation of Liquid Assets

For the purposes of calculating its liquidity coverage ratio, a credit institution shall use the market value of its liquid assets. The market value of liquid assets shall be reduced in accordance with the haircuts set out in Chapter 2 and with Article 8(5)(b), where applicable.

CHAPTER 2

Liquid Assets

Article 10

Level 1 assets

1. Level 1 assets shall only include assets falling under one or more of the following categories and meeting in each case the eligibility criteria laid down herein:

(a) coins and banknotes;

(b) the following exposures to central banks:

(i) assets representing claims on or guaranteed by the European Central Bank (ECB) or a Member State's central bank;

(ii) assets representing claims on or guaranteed by central banks of third countries, provided that exposures to the central bank or its central government are assigned a credit assessment by a nominated external credit assessment institution (ECAI) which is at least credit quality step 1 in accordance with Article 114(2) of Regulation (EU) No 575/2013;

(iii) reserves held by the credit institution in a central bank referred to in points (i) and (ii) provided that the credit institution is permitted to withdraw such reserves at any time during stress periods and the conditions for such withdrawal have been specified in an agreement between the relevant competent authority and the ECB or the central bank;

(c) assets representing claims on or guaranteed by the following central or regional governments, local authorities or public sector entities:

(i) the central government of a Member State;

(ii) the central government of a third country, provided that it is assigned a credit assessment by a nominated ECAI which is at least credit quality step 1 in accordance with Article 114(2) of Regulation (EU) No 575/2013;

Thesis 2 Creating outperformance for insurers will become more difficult under the Solvency II regime.

Facts

First official supervisory reporting due in May 2016.

Solvency II Client Reporting not audited so far.

Economic as well as regulatory capital are limiting factors for insurers.

Challenge

- Quantitative Changes in reporting likely.
- Separate limit systems required for economic and regulatory capital.
- Consumption of regulatory capital will result in management targets for segregated accounts and investment funds.

→ Asset Managers see a call for investment funds and investment strategies that create outperformance within the limits of regulatory capital requirements (SCR). !

Thesis 3 IORP Directive Reporting Requirements will become a new big reporting challenge for pensions.

Facts

Revised version of the IORP[1] Directive in 2016

Solvency standards acc. SII ultimately dropped[2]

Sound processes for pensions management to better protect beneficiaries by:

- new governance requirements e.g. for risk management
- self-assessment of risk-management systems
- strengthening supervisory oversight

Concrete design of requirements in the responsibility of EIOPA

Consideration of national specifics of pension schemes recommended by EIOPA[3]

Challenge

- Fund investments for pensions are subject to tightened reporting requirements.
- Content and formats unknown (to be defined by EIOPA).
- Different reporting requirements likely depending on jurisdiction → approx. 40 different pension schemes across EU

➔ Asset Manager will face a large variety of local data and reporting requirements !

[1] IORP = Institutions for Occupational Retirement Provision which was issued by the European Commission in 2003
[2] See "Occupational pensions. Revision of the Institutions for Occupational Retirement Provision Directive (IORP II)" which was published by the EPRS European Parliamentary Research Service on 11 Dec 2015 in the series "Briefing. EU Legislation in Progress" of the European Parliament
[3] EIOPA's Advice to the European Commission on the review of the IORP Directive 2003/41/EC from 15 Feb. 2012

Conclusion

Investor Regulation

… creates investment restrictions for investors.

… leads to limits, targets, reporting obligations for investment funds.

… stipulates investment guidelines, investment processes, client reporting.

… requires consistency of data and methods across the value chain.

Dimensions

- Investment restrictions (e.g. for funds of HQLA, low SCR funds)
- Additional limits / thresholds for ratings, maturities, sectors and others
- Maximum consumption of regulatory capital (if applicable)

Challenges

- Pre-/Post-trade monitoring of guidelines that base regulatory categories
- Evaluation of the performance relative to a benchmark without such restrictions
- Evaluation of active management relative to e.g. additional regulatory capital requirements

Hypotheses…

- Investors will integrate regulatory reporting with risk and performance analytics.
- Asset management will be appraised by both classic (e.g. Sharpe Ratio, Treynor Ratio) and regulatory key figures, based on the same data and methods.
- Asset managers need to monitor both attribution of investment performance as well as contribution to capital commitment.

Data management, analytics and reporting competences are required to gain a competitive edge.

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