

'Follow the Sun' Financial Reporting: Better Products Delivered Sooner



By Joseph Rezabek
Head of US Fund Services
Citi

With mutual fund portfolios now consisting of such multifaceted securities as derivatives, OTCs, alpha funds and structured investments, these popular asset pools have evolved into more complex and challenging products from a valuation perspective. At the same time, fund Boards and audit committees – because of their increased oversight responsibility – are seeking greater levels of transparency as they become more actively involved in the financial reporting process. As a result, financial reports need to be completed faster, more efficiently and with higher levels of quality control than ever before.

The administrative function of compiling a fund's financial reports, therefore, has also increased in complexity. More sophisticated resources are necessary to accomplish the feat within the 60-day window, as mandated by the SEC in 2002. Today, expectations are rising, products are evolving, transparency is in strong demand and the only constant is the 60-day reporting requirement.

Following the Sun

"Follow the sun" processing of financial reporting dramatically streamlines operations while reducing production risks and costs. This nonstop, around-the-clock and across-the-globe model saves time, permits the introduction of enhanced quality controls and, for the benefit of asset managers, produces better products delivered sooner. In brief, this innovative process allows an extra layer of control. With audits and compliance rules becoming more stringent, this additional level of oversight is essential.

"Boards and audit committees – because of their increased oversight responsibility – are seeking greater levels of transparency as they become more actively involved in the financial reporting process."

The “follow the sun” operating model is also what we call the “six-eye” principle because it brings an additional set of eyes to the traditional four-eyed process. Typically, in financial reporting, the functional areas of data preparation and review are performed in a single operating environment. Here, the two functional sets of eyes include preparation by a financial analyst followed by a level of managerial review. Thus, we have one group with two sets of eyes that account for the traditional four-eyed process.

At Citi, we’ve created a centralized operation in the US with an independent management infrastructure, controls and with multilevels of oversight. We’ve then replicated this operating structure in our regional facility in Asia, which has its own independent and distinct managerial controls and oversight. These two groups work in tandem, following the sun, to take advantage of the time arbitrage to manufacture the financials. Through this iterative process, the reports evolve to a high level of completion prior to moving upstream to yet a third independent financial infrastructure – bringing the total to “six eyes.” This third and final review is performed by seasoned fund administrators who ultimately provide a “treasurer level” of review.

The “six-eye” principle represents a review not by three people, but rather by three separate and distinct operating units – each with independent infrastructures to compile, process and control financial data. As a result, asset managers are benefiting from a measurably higher standard of care in terms of oversight, transparency and review.

The Reign of Transparency

A better-product-delivered-sooner mandate is becoming increasingly more important because of the marketplace-wide expectation for heightened transparency. Here, the “follow the sun” operating model is essential not only because of the added control and oversight of the “six eye” principle but also because of the time savings it offers in a regulated environment within a predefined reporting window.

Historically, initial drafts produced earlier in the process were often of less value and, in fact, a source of frustration for Board members and audit committees seeking to glean information during this stage. Because these drafts would often undergo an additional series of edits, the preview exercise proved to be unproductive. The Board and audit committees would, therefore, be forced to wait until reports were closer to completion – often up against, or in retrospect of, the close of the 60-day window – to perform their independent assessment.

“Follow the sun’ processing of financial reporting dramatically streamlines operations while reducing production risks and costs. This nonstop, around-the-clock and across-the-globe model saves time, permits the introduction of enhanced quality controls and, for the benefit of asset managers, produces better products delivered sooner.”

Today, asset managers, fund Boards and audit committees must be more actively involved in the review of financials much earlier in the reporting process in order to become more comfortable and knowledgeable in their oversight and decision-making roles. With Citi's "follow the sun" financial reporting model, a clean (and near-complete) set of reports can be available midway through the process. The Board and audit committee can review a more accurate financial document upon which to base informed decisions. In this way, final reports (including audit sign-off) are typically completed by day 45.

Going Forward

Across the mutual fund industry, a major topic of discussion is the establishment and codification of a global set of protocols to standardize the financial reporting process. Right now, reporting standards for financials in different countries – for the same fund – are broadly different.

In response, over 100 countries have implemented the International Financial Reporting Standards (IFRS) to bring harmonization to accounting and reporting practices around the globe. In North America, IFRS has yet to be adopted; however, the convergence is imminent. For the asset management marketplace, the standardization of reporting rules means a markedly improved level of efficiency, especially for multinational players and those with cross-border aspirations. In this unified environment, in which standards conform, the "follow the sun" concept for financial reporting will prove to be an even more advantageous operating model for the benefit of asset managers around the world.

Global Transaction Services
www.transactionservices.citigroup.com

© 2009 Citibank, N.A. All rights reserved. Citi and Arc Design is a trademark and service mark of Citigroup Inc., used and registered throughout the world.

493703 GTS24773 4/09

