Form PF Challenges Buy Side

The increased regulatory requirements imposed on buy-side firms as a result of Dodd Frank and related legislation, and the level of reporting required to comply with these requirements, is causing many buy-side firms to rethink their own requirements for data collection, storage and management.

"We have seen buy-side firms struggle to manage an onslaught of new regulatory requirements imposed by the Securities and Exchange Commission, the Commodity Futures Trading Commission and other regulatory agencies," said Daniel Bender, managing director in the investment management regulatory practice at accountant KPMG.

The major regulatory pain points for the buy side include the adoption of Rule 204(b)-1 under the Investment Advisers Act of 1940 and the related Form PF filing requirement.

"Many private fund advisers have begun to grasp the breadth of information required on Form PF—particularly for large private fund advisers—and that it includes a wide swath of performance, investor, counterparty and portfolio data together with other information concerning fund concentration, risk and liquidity," said Bender.

KPMG has formed an alliance with Axiom Software Laboratories, a provider of regulatory reporting and risk management solutions, to address new regulatory requirements facing investment advisers, including Form PF.

The end of August brought the first filing deadline for Form PF, representing large hedge and liquidity funds with assets under management of more than $5 billion. Meanwhile, all registered investment advisors with $150 million or more under management must file Form PF on an annual basis starting from the end of this year.

"The experiences of the largest investment managers can serve as helpful guideposts for these smaller investment managers whose filing deadlines still remain on the horizon," said Phil Niles, director, client executive at Butterfield Fulcrum, a fund administrator.

Some of the larger investment managers shunned an outsourced solution, preferring instead to keep the project internal and have their own people prepare and file Form PF.

However, the time crunch that can be faced by an internal team in preparing Form PF becomes even more complicated when the filing deadline for Form PF intersects with other busy periods for an investment manager, according to Niles.

“If the filing deadline lines up with the audits for the investment manager’s funds, major due diligence visits from investors, an SEC examination, or one of a host of other events, then an already stretched internal team may have difficulties accurately preparing Form PF in a timely manner,” he said.

Robust technology can make the process of filing substantially easier. With so many fields to complete in the document, as well as a host of related calculations, any form of automation throughout the filing can save valuable time and dramatically reduce the chance for human and manual entry errors.

“An appropriate Form PF solution which leverages technology, whether handled internally or sourced externally, should feature all of these benefits in order to ensure an accurate filing and a replicable process,” said Niles.

Service providers, especially fund administrators, already have much of the information that is required to file Form PF.

“A substantial amount of the data that is required for Form PF is already housed within the books of records at the fund administrator, so it is a natural step to build on this existing data rather than start from scratch,” Niles said. “Moreover, several top tier administrators have already rolled out complete and cost-effective Form PF solutions, so utilizing the resources of such an existing service provider can make tremendous sense.”