

# Driving straight-through processing within alternatives

Interview with Joel Andersen

Ever since the DTCC's Alternative Investment Product (AIP) Services initiative was introduced in 2008, the goal has been to replicate the success of the NSCC's Fund/SERV and Networking service for mutual funds and apply it to the alternative investment industry.

At its heart, the DTCC's AIP platform links key players across the value chain, from broker/dealers to fund managers, administrators and transfer agents, in order to provide straight through processing capabilities when sharing data.

"Currently, we are working in collaboration with DTCC on the ability for broker/dealers to place hedge fund purchase orders and to establish new accounts directly through DTCC's AIP, and have them directed to the administrator or transfer agent in a fully automated fashion," explains Joel Andersen, VP, Investor Services Business Solutions, UMB Fund Services.

"The AIP platform is very similar to what was developed in 1986 with NSCC's Fund/SERV. Currently mutual fund transfer agents are able to send electronic data to the broker/dealers to enable them to reconcile any transaction and position data. This allows them to automate their reconciliations in a more standardised way.

"We've been working on implementing the technology and processes for hedge fund purchase orders and the next step will be for AIP to electronically handle redemption orders to further automate existing manual processes."

This is not just about automating the data sharing process; it is also about building standards within the alternatives industry on how transactions should be processed by



**Joel Andersen, VP, Investor Services Business Solutions, UMB Fund Services**

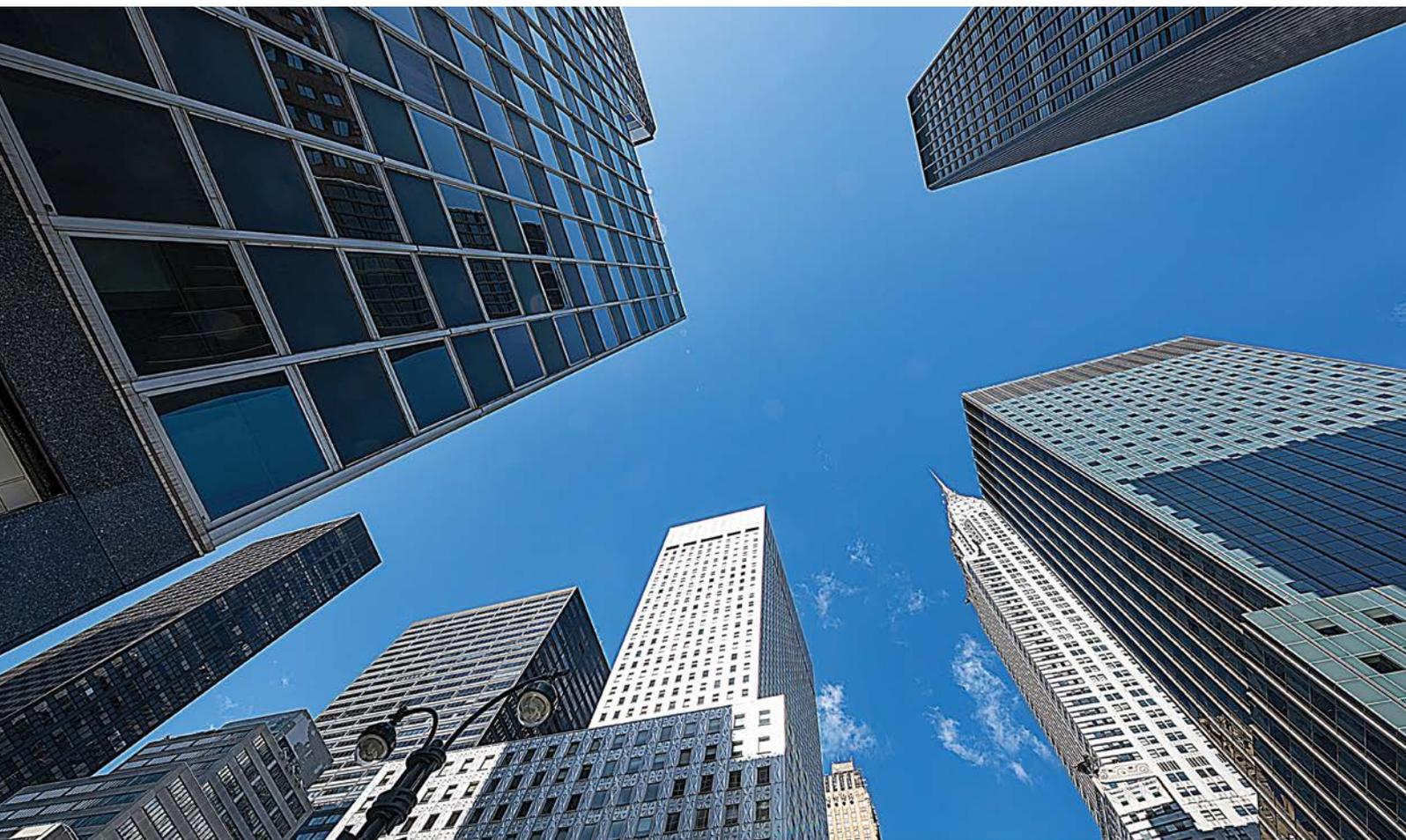
the various parties involved. By effectively addressing the operational challenges related to capital investments and investor activity, AIP provides the alternative investment community scalability through improved efficiencies, reduced operational risk and lowered costs.

According to DTCC, there are currently 40 fund administrators and 26 broker/dealers and custodians utilising AIP. UMB Fund Services has been involved in promoting the development of the platform since 2008, and being the voice of our clients within the administrator community.

UMB Fund Services views the AIP service as a major benefit for unregistered and registered alternative fund managers. Straight-through processing brings a variety of advantages to managers including operational efficiency, greater transparency and reduced risk. "The greatest benefit we see is increased distribution potential for funds who are looking beyond their traditional investor base. The AIP service is one factor that may allow funds access to trading platforms and speed asset growth," explains Andersen.

"We became involved with the project in order to advocate for our clients on the development of the platform, but also so our internal systems are completely integrated into the process to best support clients and their asset growth."

With so much data being exchanged within the alternatives industry, especially as managers launch '40 Act alternative investment funds alongside their unregistered vehicles, technology investments that can streamline that transfer of data are a focus for UMB Fund Services.



“Being able to accept subscription documents electronically is certainly beneficial. We are looking to add functionality on the redemption side and allow managers using the AIP platform to receive redemption orders from broker/dealers electronically rather than having internal staff manually inputting that information,” confirms Andersen.

In the mutual fund industry, nearly everything is automated with respect to the way that money is moved and settled and positions are reconciled within funds. Without that level of automation in place the US mutual fund industry may not have grown to the size it is today.

“The more automation we can build in to AIP, the more opportunity it will give hedge funds to grow their assets and their investor base that up until today they might not have been able to reach,” suggests Andersen. “Distribution platforms in particular want hedge funds to utilise AIP to more effectively deliver data to them. Indeed, some platforms are mandating that hedge funds do this.”

Consider the example of a hedge fund that is participating in AIP and just recently gained access to a large distribution platform. In that example, the broker/dealer will need to receive a monthly position file on each fund investor to reconcile the number of shares and update investor accounts with the new capital balance. As everything is automated within DTCC’s AIP, it means that the fund can easily send the information electronically so the broker/dealer can send out accurate information to the fund’s investors.

“It allows everyone using AIP to receive data in a more timely fashion; for example, the transfer agent doesn’t have to manually input investor information as they are getting it directly from the broker/dealer as it uploads into the system. It eliminates the need for manual tasks, which can be time-consuming. Streamlining the reconciliation process as purchase orders come through and purchase amounts settle will simplify what has, for the alternatives industry, been a complex process,” concludes Andersen. ■