

Servicing hedge funds

Tom Wheatley, COO at reconciliation specialist Watson Wheatley, outlines how the firm services hedge funds and what types of requests they've been experiencing

Q How are you positioned to guide hedge funds with their reconciliation and reporting obligations?

A We have built up significant experience in the specific reconciliation and reporting needs of hedge funds right from inception of Watson Wheatley. Our iRecs system was originally built for GLG Partners and was tested across a variety of instrument classes and with high trading volumes from day one. Fast forward 10 years and we had expected to find that everyone would want the same type of reconciliations and reporting by now, but this often isn't the case. We therefore leverage the configurable nature of the system to work with those clients who have bespoke requirements from a reconciliation and reporting perspective.

Watson Wheatley also has extremely knowledgeable staff and a commitment to organic growth, therefore allowing us to scale steadily and keep the same level of customer service we had when we were only working with a handful of clients. Our team has worked with a huge variety of systems and data providers over the years and bring this expertise to our client interactions on a daily basis.

Q What are some of your points of differentiation throughout this process – how do you make sure operational controls are sound and efficient as can be?

A We have a reconciliation tool built specifically for the buy-side and our target market is



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small- to medium-sized clients. We have extensive hedge fund experience within the company and understand the operational challenges our clients face; all of our senior team members have operations backgrounds in asset management.

Operational controls within the reconciliation process are key to traceability and transparency. All processes in iRecs are fully audited and transactions can be traced to their source and validated against the original data received with a couple of clicks. To that point, we have spent many hours refining the processes in the latest version of our system to be as efficient as possible from the user perspective and during the implementation process.

We don't use external consultants to implement our software, only the highly experienced team we have in-house. This improves the quality of implementations, which is key to long-term client satisfaction, and also makes sure the implementations are quick and as efficient as possible. We don't want to build a consulting arm to our business but prefer to focus on improving the product and bringing innovative solutions to market.

A key differentiator is our Total Equity reconciliation which is still unmatched in the industry, allowing operations teams to manage the split between realised and

unrealised P&L on margin traded instruments and solve FIFO/book cost issues at position and trade level.

We also target operational efficiency improvements with the iRecs system in a number of ways. We can automate transaction uploads to internal systems and external providers, which eliminates users keying in data and solves reconciliation breaks more efficiently. Our reporting allows prime broker comparison and key internal issues to be refined, such as repeated break reasons and rebooking rates.

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Q How has your service proposition developed in recent times?

A In terms of the iRecs software, we are expanding our regulatory reporting areas, improving the user experience and working on new implementation techniques to make the installation process even quicker. We saw the highest number of sales in our history last year and the current year is looking just as strong; therefore we are learning more from the different uses of the software, not just in hedge funds but in the peer-to-peer lending market and private equity.



We have just announced 'Reconciliation as a Service' and on-boarded our first client. This model leverages the power of the iRecs system to receive, reconcile and report on data received each day as well as provide instant uploads to other client systems. A suite of management reports have also been developed to provide the client with excellent oversight of the entire reconciliation process. The service is designed to achieve extremely high automated matching, break matching within tolerance and escalation of breaks outside of tolerance back to the client.

Q What are 2018's biggest regulatory hurdles and how can you help clients with these?

A There are a myriad of regulatory hurdles for funds to adhere to. We take the view that a flexible system rather than a cookie-cutter approach is the best method to solving these issues. Where a client wants a certain report or function that we think would be beneficial to all clients, we work with them to develop this for mutual benefit in the hope that this can be a solution for more clients with some small changes. A problem we see in the market is a lot of 'tick-box'

reconciliation and regulatory solutions don't quite fit the needs of the client when they are actually implemented, meaning workarounds are still needed. The vendor wants the standard approach because it is more scalable, but the client ends up with a solution that only covers 80% to 90% of the requirement, hence our opinion on a more flexible approach.

We still see clients doing a lot of work around Emir regulations, for example, reconciling data from DTCC. SFTR is also on the horizon and something we are working on.

Q Where do you see software offerings for HFs broadening in the future?

A We still see a growth in the requirement for in-depth reconciliation solutions rather than simple file-to-file rec tools. The latter is often quick to implement but doesn't give the granularity and depth that is required, even for small funds. This, coupled with regulatory reporting and an operational toolkit, are areas where we are seeing the most interest.

We also see smaller funds requiring reconciliation solutions even before they start to scale. Many of the operations professionals we

work with have seen the difficulties of excel macros and in-house solutions up close in previous firms and are keen to start out differently. We therefore find ourselves working with smaller firms and even small launches as they are keen to get solid tools in place from inception in order to scale elegantly.

The trend from on-premise to hosted solutions is clearly continuing and we are well positioned to support both. The move away from on-premise is not quite as quick as the industry anticipated, with some funds still being very keen to keep everything on-site which has seen other vendors which were cloud-only having to backtrack and provide private versions of their system. Again we stay flexible in this area, offering solutions and, more specifically, segregated cloud/database deployment where a hosted solution makes financial sense but clients wish to have completely separate infrastructure.

Overall we believe our high level of client service aligned with a flexible system, fast implementation and expertise in operational processes will help us continue to grow the iRecs offering as a standalone system and in 'Reconciliation as a Service'. **HFM**