



Quartal Financial Solutions

Distribution Fee & Commission Management

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Introduction

With a complex and ever-changing regulatory climate, an asset manager's ability to maintain accuracy, efficiency, and transparency is paramount. This is particularly critical with distribution fee and commission management, involving diverse products, multi-layered distribution hierarchies, complex incentive structures, and regulation or compliance requirements. Having the right processes in place creates peace of mind and enhances customer satisfaction.

Many asset management firms still rely on manual or semi-manual processes for handling commissions, fees and fund distribution management despite the risks involved and inherent mistakes with human inputs into Excel or other programs which are prone to errors, time-intensive and difficult to adjust when regulatory changes arise. The use of automated distribution commission and fee management software reduces man-hours and improves performance, efficiency, accuracy, and regulatory compliance.

What is distribution fee and commission management?

Distribution fee and commission management is the process of calculating, allocating, and reconciling distribution commissions and sales costs paid to distributors on a specific fund or fund range. Asset managers offer a commission, either one-time or ongoing to distributors (such as e.g. financial advisors or retail banks) as an incentive for distributing an asset manager's products and encouraging their clients to invest in the fund. This is a similar process to how insurance salespeople receive ongoing commissions for establishing clients for the provider.

This activity is based on an understanding that attracting more investors to join a fund will improve the growth of the asset, and potentially provides a greater return to investors. The most common terms used to define such distribution fee structures are: trailer fees, rebates, commissions, retrocessions, incentive fees, inducements, and 12b-1 fees (in the US). Regardless of the term used these commissions usually return 0.25%-1% of the yearly asset value to the distribution firm or salesperson that initially attracted the investor to the fund.

The asset manager must track this commission for each distributor and possibly also the associated salesperson separately, accurately monitoring distributor referrals, investment amounts, and dates of investment purchase and sale. The distributors then receive commissions based on the quantity of their clients' investments in the fund over the previous period based on certain criteria and pre-agreed rates.

Because this fee is based on asset value, and the portion of the asset that was contributed by a distributor's clients, there is a diverse range of moving pieces. Capturing the asset's value at a specific point in time, knowing how much value each distributor has provided to the fund over the previous period, associating this value with the correct commission rate or rates, and monitoring when each investor is added or removed from the fund – these are all elements that go into tracking and distributing commissions and associated incentive payments.

Challenges in distribution fee and commission management

For asset managers of larger funds, distribution management is no easy task. When a fund consists of hundreds, or thousands, of distributors with dozens of clients each and a potentially large number of sub-funds and/or share classes, then substantial work must go into effectively tracking accurate and timely commissions.

Some of the ongoing challenges for an asset manager include determining the actual value of the asset when the distribution fee is due, applying the correct commission rate, properly prorating commissions for clients who joined or left the fund during the period, verifying that proper payouts are sent to the appropriate distributors, and ensuring an accurate and transparent reporting structure. A single mistake during this process can have a substantial impact on the credibility of the firm, and may discourage future and current distributors from further promoting the asset.

Meanwhile, as commission distribution is a process continually in the eye of the regulators, changes related to e.g. RDR and MiFID II may occur at any time. For firms manually tracking commissions, a significant amount of time must go into compliance and any potential regulatory adjustments to ensure that distributions are paid legally and all distributors, salespersons and/or clients are informed of changes in the commission structure and underlying data, including appropriate reporting.

Even without adjustments to the law, maintaining proper regulatory compliance requires ongoing auditing and evaluation of the tools used to calculate, allocate, reconcile, and pay distribution fees and commissions. Failing to comply with all legal requirements can result in both legal and financial repercussions. Without a streamlined process for tracking distribution fees and commissions, a firm can find itself struggling to maintain transparency, which leads to fewer investors, higher labour costs, and a greater risk of error.

How to optimize distribution fee and commission management?

For a fund to compete against the many options available to investors today, it must maintain an effective distribution network providing punctual, accurate and competitive commissions to distributors. The most common way to achieve this is through the implementation and use of effective distribution fee and commission tracking and management software that automates the process and provides greater transparency to the asset manager – who, in turn, can provide that information to distributors and investors.

When looking for distribution fee and commission management software, you want to find an application that provides:

- Minimized costs and risks through a fully automated process managed through exceptions.
- A highly accurate distribution tracking system that can seamlessly calculate and track commissions and fees based on a variety of distribution and incentive structures.
- A solution that provides business intelligence for new investment ideas. For example with Quartal's Position Allocation Manager module an omnibus account can be broken down into individual investor transactions and combined with revenue for a particular investment

product within an emerging market country. This leads to good quality metrics on the likelihood of success of a new product launch.

- A highly scalable solution – able to grow with your distributor network and investor base.
- The latest in security and audit standards for peace of mind and reporting.
- Connections to multiple data sources including Custodians like Euroclear and Clearstream and CRM systems.
- By implementing a software solution that reduces costs and expedites the commission process, fund managers can spend their time building relationships and maximizing financial returns, rather than dealing with sometimes complex ongoing commission calculation and distribution challenges.

Save time by automating the distribution fee and commission management process with Quartal COMMISSION

Since our inception in 1999, Quartal Financial Solutions has worked closely with a variety of financial service providers to expedite fee and commission management – so we know what it takes to manage distribution processes effectively. Building on our knowledge and experience in the financial services industry, we launched Quartal COMMISSION, the all-inclusive distribution fee and commission management solution.

Quartal COMMISSION offers a flexible and innovative solution for commission management with a calculation and processing engine specifically designed and configured for all aspects of commission and retrocession management - allowing for rapid, reliable and transparent data processing, calculations and real-time reporting.

Asset managers use Quartal COMMISSION to accurately and effortlessly track the distribution fee and commission management process. Quartal COMMISSION is a multi-currency system that provides a myriad of benefits, including:

- The ability to handle any fee and commission structure (flat, class, level, mixed, and degressive discounting) and associated calculation algorithms.
- Exception based processing and granular level reporting that ensures maximum transparency.
- An audit-proof system incorporating single sign-on that makes accounting and monitoring easy with full history of all data manipulations, including enhanced security through assignment of unique roles and responsibilities.
- An open architecture platform that can integrate smoothly with your current environment.

Through the implementation of Quartal COMMISSION, many asset managers have been able to minimize error, reduce overhead, and improve the consistency and accuracy of their distribution fee and commission processing. If you're interested in removing the manual aspects of your distribution tracking process to increase efficiency, reduce cost, and keep distributors satisfied, please contact Quartal to discuss how we can help you transition to a new way of commission and fee management.