SUMMER INTERNSHIP FINAL PROJECT

"Risk and control framework of Regulatory Reporting in Mutual funds"

in

JPMORGAN CHASE & CO.

Completed in partial fulfillment of the requirement of MBA Program.

Submitted to:

Prof. Nirmal Soni

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MBA FT (2019-21)

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JPMORGAN CHASE & CO.

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ACKNOWLEDGEMENT

I would like to express my gratitude to all the people who inspired, guided and mentored me while I was doing my project.

To begin with, I would like to thank **Institute of Management, NIRMA University** for giving me an opportunity to link and supplement my experiences with practical learning. I would also like to thank **Prof. Nirmal Soni** for mentoring me and last but not the least I would like to thanks our Director Dr. M Mallikarjun for guiding me throughout my internship period.

I am grateful to **JPMorgan Chase & Co.** for providing me this internship opportunity which gave me a great chance to improve my skills and learn new things for my professional development. I would like to express my deepest and sincere gratitude towards my managers and my buddy who helped me on my project **"Risk and control framework of Regulatory Reporting in Mutual funds".** Their suggestions were very helpful to me as it opened up new horizons for my research and helped me to diversify my knowledge spectrum. I perceive this opportunity as a big milestone in my career development.

Sincerely

Ayan Alam Khan
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DECLARATION

I, Ayan Alam Khan hereby declare that the project entitled **“Risk and control framework of Regulatory Reporting in Mutual funds”** submitted by at **JPMorgan Chase & Co.** under the guidance of my managers and buddy as my Summer Internship Project is my original work and the interpretations drawn therein are based on material collected by myself.

Ayan Alam Khan
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EXECUTIVE SUMMARY

JPMorgan Chase & Co. could be a leading global financial services firm with assets of $2.69 trillion and operations in additional than 1 o o countries. The firm could be a leader in investment banking, financial services for consumers and tiny businesses, commercial banking, financial transaction processing, asset management, and personal equity. A component of the stock index Industrial Average, JPMorgan Chase & Co. serves lots of consumers within the u. s. and plenty of the world's prominent corporate, institutional and government clients under its J.P. Morgan and Chase brands.

The project could be a result of the work in dire straits JPMorgan Chase & Co. from April to June 2 o2 o for a period of 9 weeks.

The objective of the project was to Research different types of risk and control framework deployed by banks for regulatory reporting in mutual fund. The project requires a great deal of research in regulatory reporting and how banks tried to remove the various risk which fails them from following the compliance of the regulators and needed to suggest the best methodology for it.

TABLE OF CONTENTS

PART B

Introduction

I was given a **research-based project** related to the Risk in Regulatory Reporting of Mutual Funds. I was required to give an overview of the Mutual Fund Industry regulation and do the in-depth analysis to find out what are the Risks in Regulatory Reporting and what is the process major banks uses to remove and control the Risks. In addition to this, I was needed to compare the risk and control Framework followed by different Banks and to recommend best practices to remove these risks.

Key Deliverables

- Project should focus on studying the Risk & Control Frame work applied for Regulatory Reporting by other Major banks in banking industry for mutual fund world.
- Compare and Contrast the outcomes with existing model.
- Perform study on Risk - internal controls, audit requirements and acts applicable.
- Come up with recommendations & automations which are time efficient and effective in nature.

Success Measures

- Analysing the competitive offering of at least 2 comparable banks.
- Clear demonstration of analysis output & presentation to the Business

Methodology

Approach: The approach adopted for this research-based project **was a mostly qualitative.** As, I researched about the various regulation that are followed in different countries which was a qualitative aspect. And how banks try to comply with these regulations and what are the risks that are in formulating these reports.

Sources of data: The research was done purely on the basis of **Secondary sources of data.** Sources were the official website of Regulators, banks internal control, Basel III reports, Annual Reports.

Method of data collection: As mentioned, data collection was from the secondary sources i.e. **from the documents** like website of Regulators, banks internal control, Basel III reports, Annual Reports.

Method of data analysis: The research used **Multivariate and Hermeneutics** methodology for analysing data. As it derived subjective interpretations from the data and taken into account more than one variable spreaded across different dimensions and areas for analysing data.

Context of Industry Problem

Regulatory reporting has been norms for banks since the great depression after introduction of Dodd- frank act, it became mandatory for banks to provide their data to the regulators to keep a check on the bank, this helps to curb faradism and to avoid government to bail out Global systematically important bank, or bankruptcy of these G-sib. Regulatory Reporting making has its own fair share of risk and different banks have their risk and control framework to curb the problem. Finding the best among them to follow has its own challenge due to huge data privacy issues.

Mutual fund Regulations

The European Union

A mutual fund in Europe is ruled by laws from the Undertakings for Collective Investment in Transferable Securities, or UCITS. The broad aim of the UCITS regulative regime is to permit collective investment schemes to operate freely throughout the EU based on a single authorization or "passport." The UCITS complete is recognized as a very international investment fund product with some UCITS being marketed to investors outside the EU that are seeking a well-regulated investment product with vital levels of capitalist protection. The UCITS complete is currently thought of by each retail and skilled investors to represent one in all the highest standards within the fund management trade.

Undertakings

UCITS include undertakings:

- With the sole objective of collective investment in transferable securities or other liquid financial assets with capital raised from the public.
- Which operate on the principle of risk-spreading.
- Whose units are repurchased or redeemed out of the undertakings' assets.

The undertakings may be constituted under contractual law (as common funds managed by management companies), trust law (as unit trusts), or statute (as investment companies).

Collective Investment

The term “collective funding” isn't defined through the UCITS Directive or below European law, however consistent with the European Securities and Markets Authority (ESMA), one of the traits of a collective funding mission is that it “…swimming pools collectively capital raised from buyers and has there as on of producing a pooled go back from the pooled hazard generated through acquiring, maintaining or promoting funding property. “The following collective investments are excluded from the provisions of the UCITS Directive: Closed ended collective funding undertakings. Categories of collective funding undertakings prescribed through regulations.

Transferable Securities – The first UCITS Directive in 1985 turned into restricted to transferable securities – essentially shares and bonds indexed on public exchanges. The scope of eligible property turned into subsequently broadened (extra in this later).

The Hong Kong Market

Hong Kong's rules are the most restrictive. There are 2 fund governing bodies within the urban center market: The Securities and Futures Commission (SFC) and the MPFSA. The SFC's rules are broader and not as specific or restrictive as the rules set forth by the MPFSA. They apply to any or all funds marketed in urban center, no matter what variety of investment trust they're. In distinction, MPFSA solely governs funds that are marketed to be used within the retirement accounts of its residents. This means that funds appropriate for investment in retirement accounts have 2 restrictive bodies to worry about—they should abide by each SFC and MPFSA rules. However, because the MPFSA rules are additional restrictive than SFC rules, fund managers will typically concentrate on the MPFSA rules, knowing that compliance with these rules can typically guarantee compliance with the broader rules still.

The U.S. Market

All mutual funds marketed to the U.S. retail investors should be registered with the SEC and must abide by the foundations set forth underneath the nondepository financial institution Act of 194 o, ordinarily stated as the '4 os Act. Some of the rules under the '4 os Act deal with diversification issues. Specifically, Section twelve limits the quantity of fund assets that may be invested with in other investment corporations. In different words, the rule prohibits a open-end investment company from concentrating too several of its holdings within the stock of AN no depository financial institution.

Another rule, 35d-1, commonly referred to as the "name test," makes sure that most (8o%) of the mutual fund's holdings are reflective of the fund's name and prospectus. So, if a fund calls itself an "International Equity Fund," 8 o% of its holdings should be equities, and that they ought to be international equities.

These there's the key regulation that mutual funds operating in these countries ought to follow, whereas remainder of the countries have similar sorts of laws with many modifications around it. very cheap line is knowing the variations among the monetary regulators is incredibly vital for an open-end investment company manager. A manager may have totally different funds registered among these different regulative environments, and they ought to confirm that they perceive what they'll and can't neutralize every of the countries. Breaching a rule, particularly a significant one, will provides a fund and its manager a foul name, a fine, or both.

Commission de Surveillance du Secteur Financier Luxembourg

The Commission de Surveillance du Secteur Financier is a public establishment that supervises the professionals and product of the Luxembourg monetary sector. It supervises, regulates, authorizes, informs, and, wherever applicable, carries out on-the-spot inspections and problems sanctions. Moreover, it's answerable of promoting transparency, simplicity, and fairness in the markets of monetary product and services and is liable for the social control of laws on monetary client protection and on the fight against concealment and terrorist funding.. So, in a nutshell every mutual fund operating in Luxemburg have to follow the regulation set by CSSF and have to provide the CSSF with the regulatory reports. The reports that CSSF requires from the financial Institution are:

Name of the reporting	Description	Frequency
Reporting U1.1	The CSSF's monthly reporting covers **each type of UCI** (SICAR from June 2016 onwards). It encompasses information on: • Financial information on the UCI : net asset value (NAV), subscriptions, redemptions and distributions; • Financial information on the share classes : number of shares outstanding, NAV per share, net return, subscriptions, redemptions and distributions; and • Financial information on income and expenses	Monthly
Reporting O4.1	The CSSF's annual reporting covers **each type of UCI except SICAR**. It encompasses information on: • balance sheet positions : assets and liabilities split by investment categories; • income and expenses by categories; and • changes in net assets and changes in the portfolio.	Annual
Reporting K3.1	The CSSF's semi-annual **SICAR** reporting encompasses information on: • balance sheet positions : assets and liabilities split by investment categories; • income and expenses; and • principal exposures.	Semi-annual

Sending these many reports and also so frequently lead to lots of risk and failure to compliance with these reports leads to **sanctions, fines** along with **Reputational Risk**.

Regulatory Reporting

‘Regulatory reporting’ is the submission of raw or outline knowledge required by regulators to gauge a bank’s operations and its overall health, thereby decisive the standing of compliance with applicable regulative provisions. Governments across the planet provide prime importance to stay their banking systems updated. This has established to be associate degree important task, additional therefore when the monetary crisis of two o o8- o9 or what we have a tendency to have returned to understand because of the “Great Recession”.

Regulatory necessities differ across the world. Some governments follow the associate degree approach wherever the whole banking spectrum is underneath their control, so limiting the entry of recent players within the market. On the opposite hand, some governments don't directly manage banks however place such restrictions in place that compels them to disclose correct data at a timely interval in order to stay a check on them. regardless of the case, regulative news could be a vital cog within the banking business and is here to remain. So, what makes it all therefore important? primarily, regulators need all the smoke screens removed between them and their entities once it involves matters like liquidity management, asset-liability management, interchange exposure, risk management, and the entity’s monetary health. Once knowledge is collected in this manner, there’s a way lower probability of the news bank going bankrupt as there still is time to ensure that corrective measures are in situ and therefore the bank’s profitableness is not vulnerable. It is often compared to a sort of early warning system specially crafted for banking organizations.

As we can see from the above points the importance of regulatory report, but gathering the information to formulate a report and submit to the regulator in the defined is not an easy thing for these financial intuitions working in multiple countries to comply with new stricter rules and regulation of the regulatory bodies. Here is the following risk involve in regulatory reporting.

Regulatory Reporting Risk

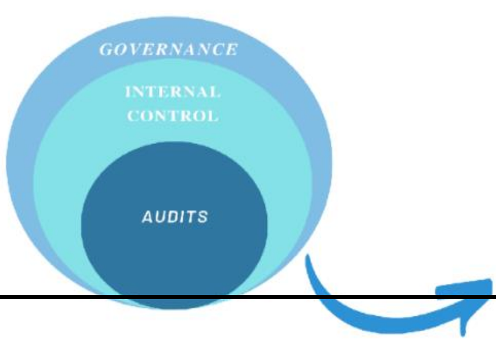
Preparing high-quality regulative reports that meet the requirements and expectations of regulators has been a long-standing challenge for banking organizations. From the regulators' views, the data necessary to satisfy regulative needs are foundational to observation firms' safety and soundness and are crucial to developing and implementing sound public policy, as well as providing input to current superior observation. while not consistent, fit-for-purpose knowledge, these objectives probably cannot be met. nevertheless, knowledge integrity problems still exist in several banking organizations. The larger, additional various, and additional complicated a corporation, the larger the challenge to satisfy accuracy, timeliness, and completeness standards over sustained periods. These challenges typically emanate from changes to a business' operative model, service delivery across jurisdictions, interpretative changes because of turnover, and systems changes. Overall, root causes that contribute to not meeting knowledge needs and regulative expectations ordinarily reflect problems within the following areas.

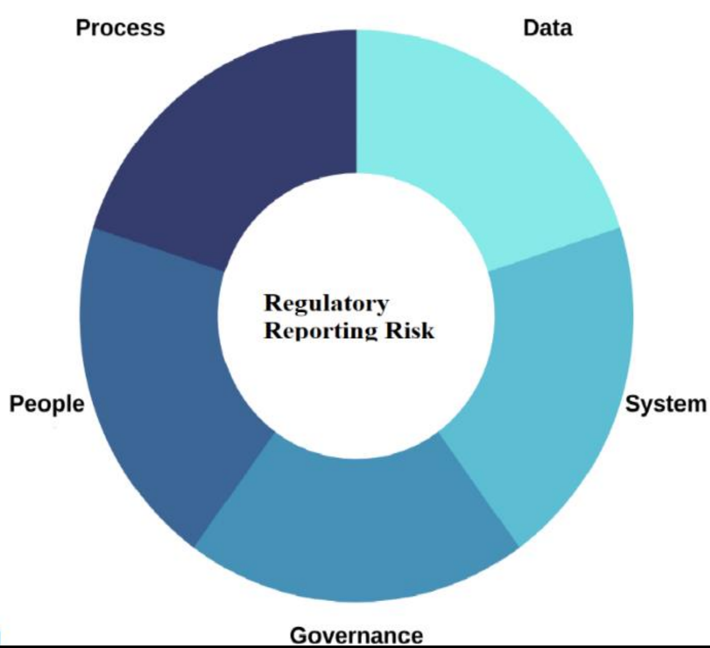
•A governance structure that enforces responsibility, measures knowledge quality mitigates news and operational risks and allocates resources to handle knowledge and money news challenges

•Firm-wide knowledge programs that embrace policies for making and maintaining commonplace knowledge and account definitions, as well as integrated accounting, risk, and knowledge repositories

• Firm-wide data integrity and quality assurance programs

• End-to-end modification programs that determine the best impact across the business, finance, risk, operations systems, and processes (www2.deloitte.com, n.d.)





Governance

Senior management and also the board of administrators have integral roles within the Risk management framework and also the method of regulative reportage. Senior management is in command of the choice, development, and analysis of the system of control with oversight by the board of directors. The senior management and also the board of administrators jointly have responsibility for establishing an organization's objectives, process high-level ways to attain those objectives, and establishing governance structures to best manage risk. they're additionally the parties best positioned to form sure the best structure for roles and responsibilities relating to risk and management. Senior management should absolutely support strong governance, risk management and management. additionally, they need final responsibility for the activities of acceptive the fault if there's any in compliance whether its relating to knowledge integrity, system they follow for compliance. Their engagement is important for fulfilment of the model. (coso.org, n.d.)

System

System is one of the primary factors leading to error in regulatory reporting. The board of directors and senior management make a crucial decision of what system to choose to collect data, transfer data, how to store it and what is the methodology of transforming the data into regulatory report. Not well thought system can lead to huge operational risk, compliance and definitely reputational risk for these large financial intuitions.
After 2 o o9 recession many of the organisation are going through drastic changes, mostly they are moving from manual process to automated technology and using some third-party vendors to achieve that quickly and efficiently.

Data

Following the 2 o o8 global financial crisis, regulators have trained their focus towards surveillance, enabled by more stringent reporting and data collection requirements.
As a result, financial institutions have been required to not only overhaul their risk management processes with a greater reliance on data, but to provide detailed reports to regulators on the risks they face and their impact on their capital and liquidity positions.

Increased regulation has indeed played a big role in the increasing demand for financial and risk data. Reporting requirements under every major financial regulation—from Basel III and IFRS 9 to MIFID II, EMIR, and FATCA—are increasingly data heavy, requiring banks to manage, clean, and analyse a large amount of information to mitigate risk, conduct stress testing, and perform analytics.

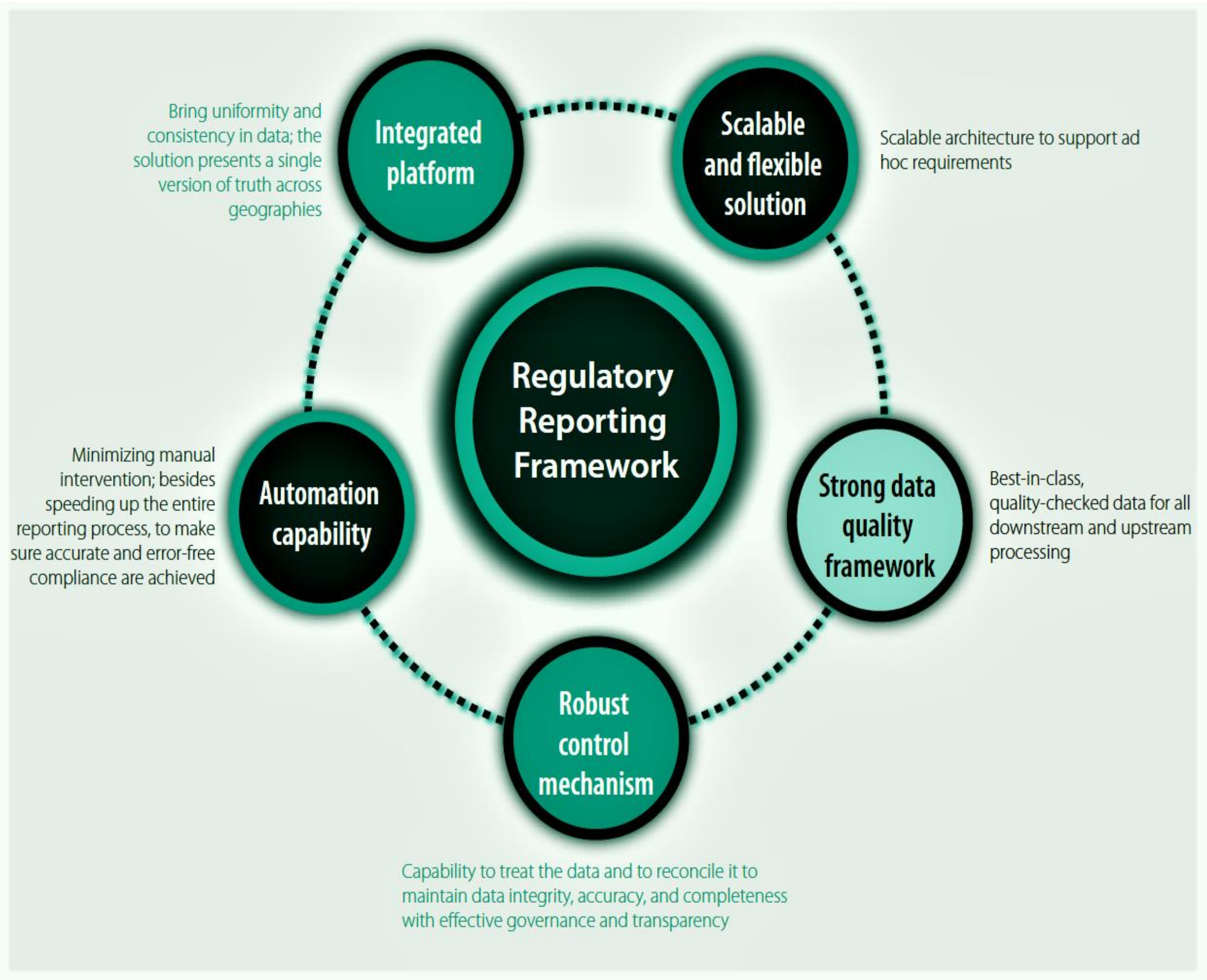
Further **highlighting the centrality of data management and reporting, in addition to the regulations cited above, the Basel Committee of Banking Supervision's BCBS 239 rules specifically focus on the aggregation of risk data and reporting**. Released in January 2 o13, the standards require banks to demonstrate the practical applications of their data governance and their effective ownership and stewardship of their data.

In **a BCBS 239 world, the value of banks' data models and architecture becomes significant, not just for meeting regulatory reporting requirements but also to assure numerous stakeholders—regulatory and otherwise**—of the strength of the systems they have in place, along with their flexibility to scale and adapt to new regulatory and compliance requirements. In addition to a strong institutional culture around data governance, banks must invest in a data management system that can be easily updated with new regulatory and commercial realities, while still maintaining the integrity of the underlying data model.

People

Difficulty in hiring resources from the market is a common challenge. There is a significant benefit to regulatory reporting gain from fast moving technology, bank needs to groom the existing talent in one hand while helping talent to transform through long term career development. Regulatory compliance should not be limited to reporting, but form part of bank business culture. Therefore, **grooming talent and training cross functional teams is a key to sustainably managing the complex regulatory environment.**

Regulatory Reporting Risk Control framework



The above framework provides solution to the major risks that are in regulatory reporting process. This solution is for the current risks but as new regulatory reporting are evolving, new risk will also come in picture. So, to curb out the future risks we need to move towards better technology that can help banks and regulators not to have problem in using new data for regulation.

Regulatory report risk and control framework comparison

SKANDINAVISKA ENSKILDA BANKEN AB	OLD MUTUAL PLC	ICBC (LONDON) PLC
It is a Swedish bank which uses tools provided by third party vendor Axioma for its regulatory reporting.	It is pan-African banking group which uses tools provided by third party vendor ARKK for Its regulatory reporting.	ICBC (London) plc uses tools provided by third party vendor AxiomSL for its regulatory reporting.
Leverage data from a range of sources, including the Axioma Risk engine, to maintain clean, consistent, easily-verifiable reporting datasets.	It uses cloud based technology to uo to date validation process and templates.	It provides end-to-end framework necessary for the automation of each report.
Standardizes and automates the regulatory reporting process.	Pioneers new, easier and more efficient options for our clients to manage reporting.	AxiomSL Data Lineage Functionality Captures and Visualizes Data Sources helps in data integrity.
It verify underlying data needed to generate audit trails and required levels of transparency.	It uses Roll-forward functionality means no repetitive of data saves time and reduces the risk of errors.	It directly submit report to Regulatory Agency across multiple reporting formats.

These are one of the top banks in the world and they have multiple branches in different contries as well, which lead to complying with various regulators. The common thing between them is that they have all moved towards digital regulatory reporting with the help of third party vendors, to control the risk they face during regulatory reporting.

Third Party Vendors Advantages

- Digital Regulatory Reporting.
- Data Centralization
- Better Automation for excel and redundant job.
- Better Data transparency and transformability.
- Better Risk management.
- Financial Institution can focus more on analytics than data accumulation and report generation.
- Easy to adopt to new regulation.

Third party vendors provide better risk control framework to financial institution but giving control to the important data has its own fair share of risk.

Recommendation

Digital Regulatory Reporting

One of the key areas of technology to focus, is that the possible solutions to the increasing challenges money establishments face in obliging with their restrictive coverage obligations.

FCA along with the Bank of European nation and varied organizations started on a run in two o16 to maneuverer towards DRR

If successful, this disclose the likelihood of a model-driven and machine-readable a restrictive atmosphere that would rework and essentially modification however the money services business understands, interprets, then reports restrictive info. This is known as 'Digital restrictive Reporting' (DRR). this may facilitate in removing the risk bank faces throughout restrictive report preparation and obliging with regulators.

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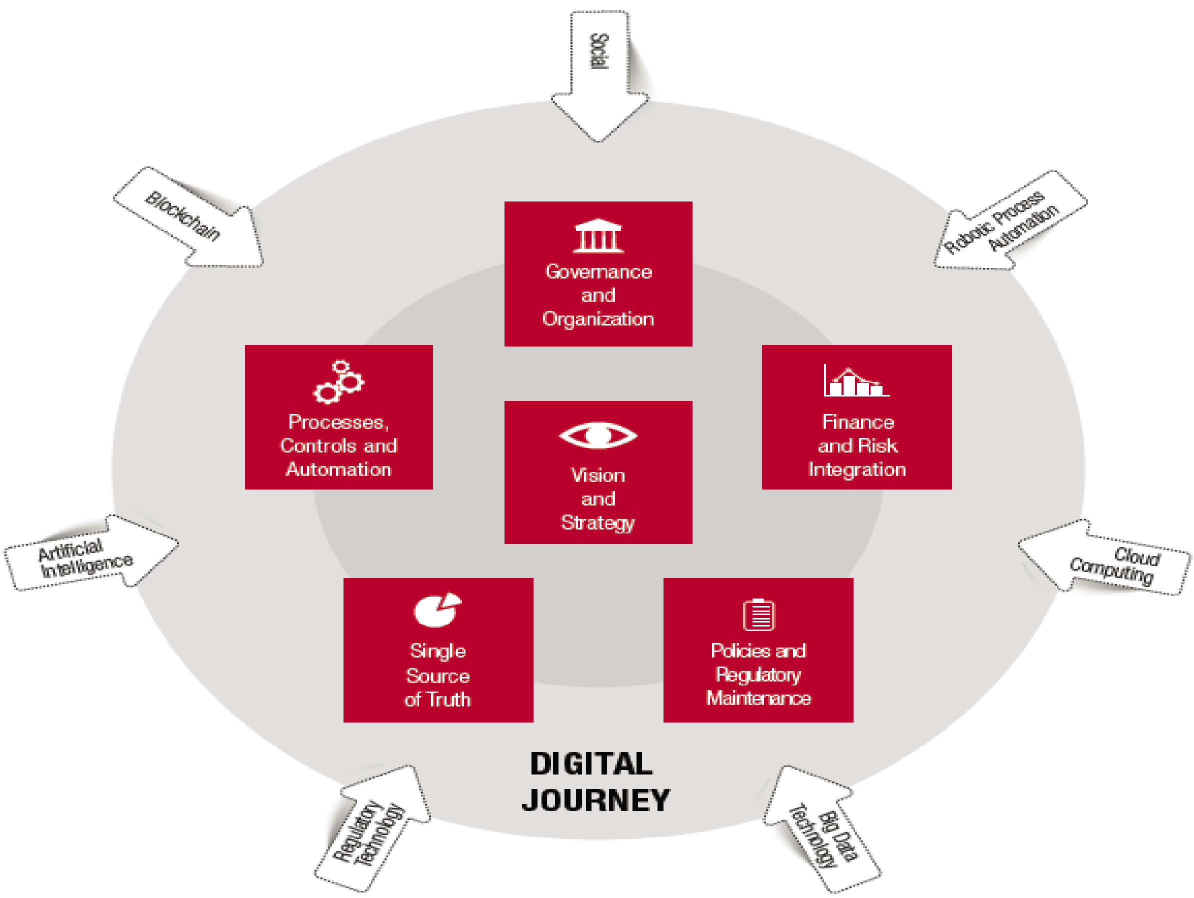
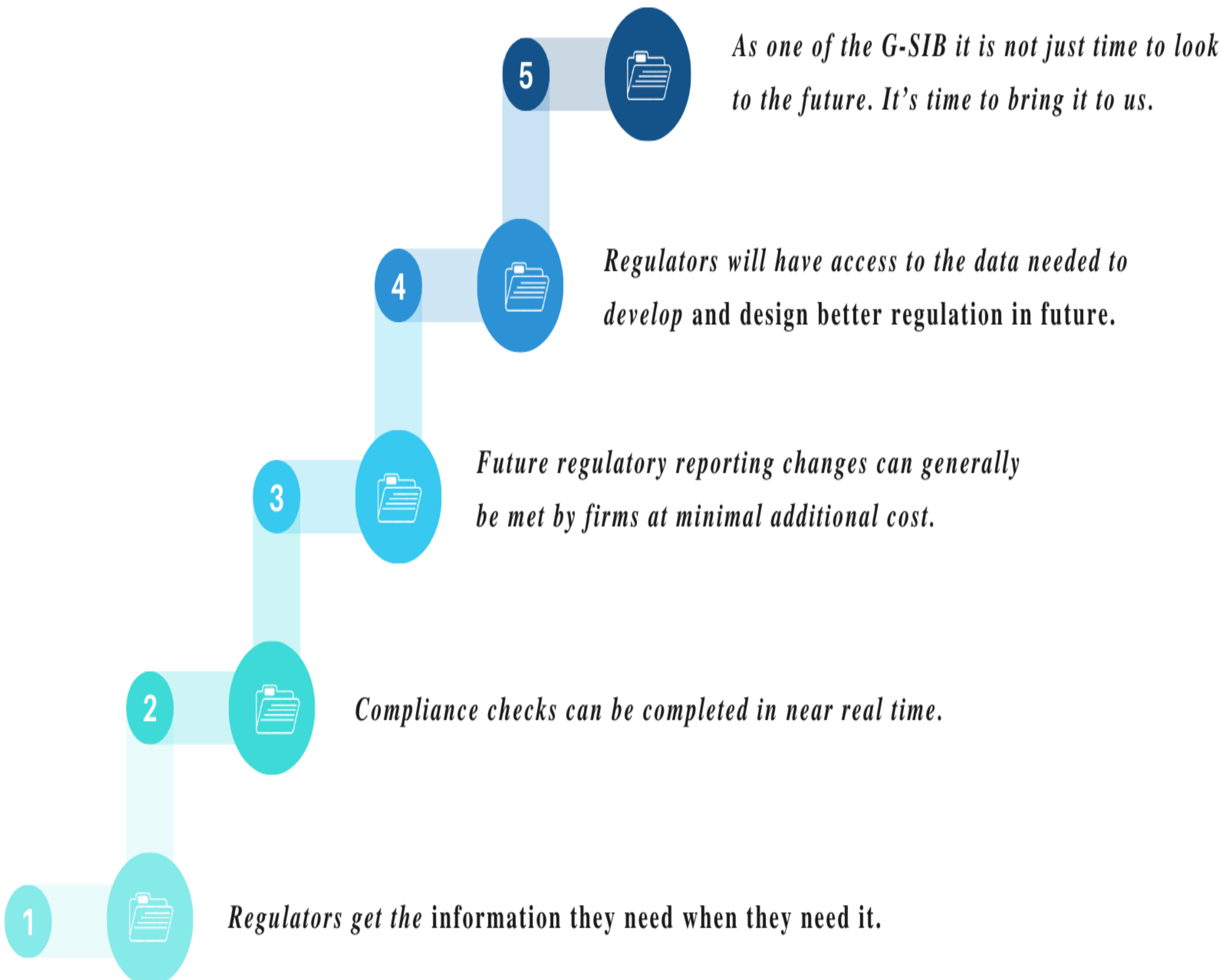


Digital Regulatory Reporting Advantages



The above diagram shows how moving towards digital regulatory reporting is the solution to all the risk and problem that arises in regulatory reporting. Though all of the technology is not to be fully trusted but still with caution bank and regulators need to move towards it. After the beginning of pilot project in 2 o16 many other banks are moving towards DRR and there also third-party vendors which facilitate bank towards it.

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PART C

Learnings:

It was purely an amazing experience to work for the World's top most Investment Bank and biggest G-SIB. I was a part of Funds Management Department under the Corporate and Investment Bank (CIB) segment of the firm. The training modules prior to project made me well verse with the basics of finance and gave me a better exposure to the field of finance which further helped me alot when I started my project. Then from the project, I got immense knowledge of the mutual fund industry and its regulation and its importance, how lack of it lead to 2 o o9 financial crisis, I did extensive research on this field only. The project also enhanced my knowledge about the problem bank faces in the regulatory reporting process and how big GSIB working in multiple coutries are spending huge amout of money and resources to comply with the local regulators. Further by understanding the project part, I was able to provide a recommendation that I think that seeing the digital age and pandemic situation is a best way for banks and regulators to follow. I also learnt the time management and people management skills as I have to complete the better work as per the timelines and also work with the team on some of the parts which was an important part of my internship.

I have developed skills and competenices that not only align to the learning objectives of the course module but are also useful for my future employment. I was able to match the theoretical knowledge gained in the institute to the practical skills acquired during the internship period.