

CFTC Reporting Readiness Guide

For Fund Administrators Reporting under CFTC Rule 4.5

Executive Summary

A 2012 amendment to the Commodity Futures Trading Commission (CFTC) Rule 4.5 requires registered investment advisors that invest in futures, options and swaps in excess of 5% of their portfolio assets to register with the CFTC as a Commodity Pool Operator. Administrators that support portfolios captured under the regulation will need to provide a series of monthly, quarterly and annual reports to the National Futures Association.

This reporting readiness guide provides administrators an overview of the reporting requirements of CFTC Rule 4.5. It also outlines the Unity® CFTC 4.5 consulting services response to leveraging existing Unity Financial Reporting™ data and functionality to readily comply with the requirements.

About CFTC Rule 4.5 and Registered Investment Advisors

The Commodity Futures Trading Commission is an independent agency founded by Congress with the mandate to regulate commodity futures and options markets in the United States. Their mission is to protect market users and the public from fraud, manipulation, abuse practices and systemic risk related to derivatives that are subject to the Community Exchange Act, and to foster open, competitive and financially sound markets.¹

Initially created in 1985, CFTC Rule 4.5 required Registered Investment Companies (RICs), insurance companies, banks and pensions (and their advisors) to register as Commodity Pool Operators (CPOs) if their total investment in commodity futures or options contracts for “bona fide hedging purposes” exceeded 5% of the funds’ assets.

In 2003 the CFTC passed an amendment to Rule 4.5 allowing “otherwise regulated” entities to bypass the 5% threshold requirement for investment in commodity futures and options, allowing them to not have to register with the CFTC and allowing them to invest in these vehicles without the scrutiny of dual regulation.

On February 9, 2012 the CFTC voted to adopt a second amendment to Rule 4.5 that reversed the previous exemption. As a result, RICs that choose to continue to invest in futures, options and swaps in excess of 5% of their portfolio assets will be required to register with the CFTC as a CPO.

Additional information about reporting requirements can be found on the CFTC’s website at www.cftc.gov.

The Unity CFTC 4.5 Consulting Services Response

Unity Financial Reporting is designed with the flexibility to support the evolving reporting needs of fund administrators, such as CFTC Rule 4.5 reporting. The solution provides the creation of five month-to-date activity reports to fulfill monthly and annual reporting requirements and provides key data required to populate the quarterly Form PQR of the regulation.

The Unity CFTC 4.5 Services response enables clients to create CFTC compliant month-to-date reports utilizing existing Unity data and functionality. The solution is an extension of Unity Financial Reporting and uses the same data and financial statements, only the reporting time period is different.

As a result, Unity clients are assured that key values have been smart-rounded, footed and validated through the Unity Financial Reporting process. There are no values to be recalculated from the general ledger, holdings or performance components, since these values have already been calculated for existing financial statements.

Supported reports include:

- Month-to-Date Statements of Operations Calculations
- Month-to-Date Statements of Operations
- Month-to-Date Statements of Changes in Net Assets Calculations
- Month-to-Date Statements of Change in Net Assets
- Supplementary Financial Statement Reports, Holdings Reports, and/or Crystal Reports to extract data relevant to Form PQR out of Unity to supplement the Form PQR assembly process. The reports required will be specific to the client's environment and available data points.

The above services are provided through the Unity professional services team, which utilizes best practices in Unity platform optimization to achieve maximum business results from the investment in data consolidation and automation with the Unity platform.

About Confluence

Founded in 1991, Confluence is a global leader in fund administration automation. Confluence helps investment management companies gain unprecedented control by automating the fund administration process—including the collection, creation, confirmation and delivery of investment product data—while maintaining control of the process. Results are lower costs, reduced risk, decreased reporting turnaround times and the scalability to automate more processes without additional resources. Confluence solutions are used by 40 percent of the leading global investment managers and more than 60 percent of U.S. mutual funds.

The Unity platform from Confluence addresses a wide range of problems from performance measurement to financial reporting for a full array of domestic and international managed investment products, including mutual funds and variable products, as well as hedge funds and other alternative investments. Major fund companies such as T. Rowe Price and Russell Investments, and service providers such as The Bank of New York rely on Confluence. Headquartered in Pittsburgh, PA, Confluence serves the international fund industry with key locations in London and Luxembourg.

To Learn More

The Unity platform from Confluence provides fund administrators with automated solutions for a multitude of back-office financial, marketing and reporting challenges. To learn more about how the Unity platform can help you more readily comply with new regulations like CFTC 4.5 by eliminating time-consuming and error-prone manual processes, contact us at 412.802.8632 or info@confluence.com.

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The materials, recommendations and illustrations outlined in this document are derived from a compilation of research and ongoing communications between Confluence and its clients, auditors and industry regulators. This paper is for informational purposes; as such it is intended to provide considerations for discussion and analysis with accountants and auditors. This paper does not provide specific accounting guidance.

¹ <http://www.cftc.gov/About/MissionResponsibilities/index.htm>