

December 27, 2022

Vanessa Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Re: File No: S7-25-22, Outsourcing by Investment Adviser

Dear Secretary:

We welcome this opportunity to comment on the Security and Exchange Commission's (SEC) Proposal for Outsourcing by Investment Advisers (File No: S7-25-22), which specifically cites those outsourced functions that meet two elements:

- 1. Those necessary for the adviser to provide its investment advisory services in compliance with the Federal securities laws, and;*
- 2. Those that, if not performed or performed negligently, would be likely to cause a material negative impact on the adviser's clients or on the adviser's ability to provide investment advisory services.*

Some public feedback to date has highlighted the potential burden and costs that many organizations would have to undertake to meet the complexity of the oversight that the SEC's proposal outlines, including the potential need to rebuild in-house functions that organizations have previously outsourced to expert third-party service providers - the argument being that such an in-house approach to meeting the proposed requirements will be costly and onerous. And this in turn will likely drive costs up for investors and hamper the asset managers' innovation efforts. Neither of these outcomes is good for anyone, nor in line with the SEC's objectives to protect the end investor.

While these are viable concerns from the industry, we consider it to be a legacy way of looking at the challenge. We think it is worth pointing out something that might make the industry look at this proposal differently - a new way of thinking about how the industry as a whole approaches due diligence.

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An alternative to the *in-house* approach to solving increased due diligence and monitoring outsourced providers

Portfolio Accounting is included among those outsourced functions cited by the SEC as an area to be monitored, and it is of particular interest to FundGuard and those organizations we serve.* Therefore it is through the lens of Portfolio Accounting that we offer the following vision.

Rather than regressing to in-house solutions to meet the challenges that the Outsourcing by Investment Adviser proposal will create, we offer that the industry can and should look to technology to provide scalable, cost-effective and accurate solutions to oversight. Thanks to the cloud, the rise of software-as-a-service (SaaS) options, artificial intelligence (AI) and big data capabilities, the ability to monitor outsourced solutions is a reality.

Offering a real-world portfolio accounting example: Asset managers can now run full-blown, low-touch, contingent NAVs, which, among other things can provide real-time oversight of outsourced financial accounting. Today, cloud-native NAV applications delivered on a SaaS basis offer real-time availability with little or no human intervention other than the final comparison of the contingent NAVs to the primary ABOR NAVs. This offers those a way to perform data analytics using machine learning and AI to fulfill due diligence obligations and to spot anomalies quickly and easily in service provider output. So instead of dedicating a team to spend their time checking mostly correct information, human intervention is only needed to rectify already identified anomalies. Crucially this also provides the all-important historical record of oversight practices (while also serving as a backup to the service provider to cover their own liability).

Future-ready, crowd-sourced oversight

Continuing with our specific example, if the industry were to align on this approach and implement a SaaS-based contingent NAV, they would easily, quickly and affordably be able to comply with this particular function under the SEC's proposed regulations. Taking things one step further, this presents an opportunity for the industry to collectively solve multiple challenges rather than going it alone. Imagine a market-created utility and/or set of utilities that, at scale, enabled the correct level of oversight and compliance. This could take the shape of an independent, industry-standard solution for daily oversight. A single, utility-based oversight framework would standardize compliance across the industry and further free up organizations to spend their time, skills and

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resources on the areas that will differentiate them, rather than spending time on commoditized challenges.

In short, we are proposing a middle ground – a neutral, industry-wide utility model that can enable the required oversight while also having all the historical information required by the SEC stored in perpetuity via the system. All the SEC’s requirements are met, but without the expected heavy lifting.

This could take the shape of specialist administrators created by the market and/or a utility model – we support either.

** Full disclosure, FundGuard offers an all-in-one investment accounting solution for ABOR, IBOR and NAV Contingency, and is therefore well-positioned to immediately support these ideas with a solution.*

Sincerely,
/s/ FundGuard

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