

Covered funds solution

Automates identification of funds affected by the Volcker rule.

Assessing covered funds takes time

As part of the Dodd-Frank Act (DFA), the Volcker Rule requires all U.S. Banks, Bank Holding Companies, Foreign Banking Organizations and any affiliate thereof, to divest ownership interest in so-called covered funds. These funds may include hedge funds, private equity funds, collateralized loan obligations (CLOs) and other securitizations.

Determining whether a fund is covered can be challenging. While the primary rule is straightforward, there are numerous exceptions. In most cases, making the right determination involves a manual review of prospectuses and deal documents, many of which are not readily available. Some deals, especially those that originate in other nations, may require a full legal analysis before a determination can be made. Banks then have to verify findings across dozens of trading desks that often lack a common reporting process. Finally, banks must create a compliance program to ensure and monitor compliance with the prohibitions and restrictions under the Volcker Rule.

Since the 2020 Final Volcker Rule becomes effective from October 1, 2020, our Covered Funds solution will reflect the amendments, and new requirements, consistent with that regulatory timeline. The assets impacted by the changes are Foreign Public Funds and Securitizations.

Bloomberg streamlines fund recognition

Working directly with industry stakeholders, Bloomberg for Enterprise developed a way to help banks identify covered funds quickly and efficiently with minimal manual effort. The Covered Funds solution uses more than 40 data fields to automatically extract pertinent details from deal documents and identify covered funds as well as provide details about ownership structure, deal type, tranche and collateral. When a clear determination cannot be made, the solution indicates the need for further legal review.

The Covered Funds solution enables banks to focus resources on the most complex evaluations and reduce wasted time and expense. It not only helps track sponsorship of covered funds but also helps calculate Tier 1 capital limits associated with ownership interests. In addition, this solution enables buy-side institutions to identify market liquidity and price discrepancies or drive demand for non-covered funds. Lastly, this solution helps monitor restrictions and exemptions related to transactions with an affiliated fund under the "Super 23A" provisions.

Broad coverage

The Covered Funds solution can easily identify covered funds. Coverage includes more than 350,000 securities, both current and historical, in the U.S. and around the world:

- Non-agency RMBS
- CDOs
- CMBS
- CLOs
- Consumer ABS
- ETFs
- ETCs
- ETNs
- Covered Bonds

The Covered Fund solution is available via an enterprise feed and on the Bloomberg Terminal® via VCF <GO>.

SOC 3 Certification by Ernst & Young (EY).

EY has examined management's assertion that Bloomberg L.P., as of August 31st 2020, maintained effective control processes over Covered Funds and determined that assertion to be fairly stated.

Extensive capabilities

The Covered Funds solution provides the data firms need to enhance the process of fund identification via an enterprise data feed and on the Bloomberg Terminal via VCF <GO>. Automation eliminates the need for banks to conduct lengthy manual reviews of holdings. Adding precision to the process gives traders and back office teams the ability to focus on core activities instead of managing legal reviews of deal documents. This comprehensive data is available daily, so firms can easily prove on an ongoing basis no covered funds have been acquired. The population of new deals also makes it convenient for firms to analyze these investments.

Covered Funds data

Field name	Description
Volcker Rule Covered Fund Logic Indicator	Applies banking industry-defined covered-fund decision tree logic relating to the Volcker Rule covered funds requirements. Returns 'Is a Covered Fund', 'Not a Covered Fund Own. Int.', or 'Legal Review Required'. More information on the decision logic can be displayed by using the information icon in the VCF function.
Volcker Rule Indicative Covered Fund	Specifies whether the issuer's offering documentation (e.g. prospectus or offering memorandum) includes a statement to the effect that the security will be issued by an issuer that is or is not a covered fund under the Volcker rule.
Volcker Rule Language Indicator	Specifies whether the issuer's offering documentation (e.g., prospectus or offering memorandum) includes a statement to the effect that the issuer expects to, or has intended to, be excluded from the definition of a covered fund under the Volcker Rule.
Volcker Rule Investment Company Act Exemption	Specifies which applicable Investment Company Act exemption(s) the issuer relied upon according to the issuer's offering documentation (e.g. prospectus or offering memorandum) of the following list: '3(c)(7)', '3(c)(1)', '3(c)(5)', '3(c)(11)', '3(c)(3)', '3a-7', '3a-6', '3(c)(1) & 3(c)(7)', '2(b)', '3(c)(5) & 3a-7', '3(c)(6)', '3(a)(1)', '3(c)(3)', '3(c)(7) & 3a-7', '3(c)(5) & 3(c)(6)', '3(a)(1)', '3(c)(3)' and '3(c)(7) & 3(c)(5)' and 3(c)(10).
Volcker Rule Indicative Ownership Interest	Specifies if the issuer's offering documentation (e.g., prospectus or offering memorandum) includes a statement to the effect that the security will be considered an ownership interest in a Volcker Rule covered fund.
Volcker Rule Covered Fund Exclusion Type	Specifies whether the issuer's offering documentation (e.g. prospectus or offering memorandum) includes a statement to the effect that the loan securitization exemption under the Volcker Rule will apply to the security.
Volcker Rule Securities Basket Indicator	Specifies if the issuer's offering documentation (e.g., prospectus or offering memorandum) includes a statement to the effect that the issuer may purchase assets or contracts other than loans with the portion of the collateral principal amount that has not been invested in loans.
Volcker Rule Institutional Stock Exchange	Indicates a determination that the security is listed only on a specified stock exchange that is presumed targeted at or restricted to institutional investors (e.g. Irish Global Exchange Market, Luxembourg Euro MTF, Cayman Islands Stock Exchange).
Volcker Rule Qualified Collateral	Indicates a determination that the collateral assets of the security are required to consist of 90% or more of direct interests in residential mortgages, commercial mortgages, auto loans, credit card receivables, or consumer installment purchase contracts ("Qualifying Loans"). Qualifying Loans include simple, 100% participations in other Qualifying Loans but do not include tranching participations, securities of any type (even government bonds or securities backed by Qualifying Loans), or secured or unsecured corporate or small business or public entity loans that are not commercial mortgage loans.

Bloomberg for enterprise

To succeed today, financial institutions must respond to challenges that are not addressed by traditional approaches. They require world-class solutions that integrate people, processes, information and technology for the front office, middle office and operations. Bloomberg partners with these institutions to protect and capitalize on data, manage risk, deliver transparency and control costs. Through enterprise-level expertise and three decades of deep industry experience, Bloomberg creates real value through the use of innovative technology that turns data into a strategic asset.

Learn more

Learn more about how we can help your firm automate a critical Volcker rule compliance process. Visit bloomberg.com/enterprise or reach us at enterprise@bloomberg.net.

Take the next step.

For additional information, press the <HELP> key twice on the Bloomberg Terminal®.

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