

The ID Register: A More Efficient Universal Onboarding Platform

In one of our prior whitepapers, *Drivers of Investment Returns: Value Creation Analysis Improved*, we noted that the methods used to evaluate a GP's investment strategy have evolved less quickly than the strategies themselves. The complexity and sophistication of private markets exceed many of the analytical processes that underpin them.

A similar lag exists when onboarding investors during fundraising. As the documents required to raise capital have grown more extensive, the process for absorbing and verifying the requisite information remains antiquated and tedious. Having invested with and alongside hundreds of GPs and worked to streamline our subscription and onboarding procedures, we can attest to the unnecessary cost and complexity of the process.

GPs ask myriad questions to verify an LP's eligibility—a subscription booklet alone can exceed 50 pages. Even after this ordeal, an LP may need to be reminded to provide missing information, correct errors or provide tax forms and other supplementary documents. With hundreds of managers coming to market each year, it is unsurprising that the documents collected differ from sponsor to sponsor. However, the information GPs collect and their reasons for doing so are virtually identical. Though minute, these differences require LPs to repeat themselves needlessly.

We believe that this dated approach presents a clear opportunity to make the onboarding process more efficient. While prior efforts have come up short, StepStone believes that The ID Register may yet overcome this vexing inefficiency.

Prior Standardization Efforts: Mixed Success

PRIVATE EQUITY PRINCIPLES

Originally published by the Institutional Limited Partners Association (“ILPA”) in 2009, and updated in 2011, *Private Equity Principles* attempts to harmonize the terms and conditions that underpin private markets investments. While the “Principles” have made private markets more transparent and advanced the dialogue on these issues, organizations have embraced ILPA’s ideas to varying extents. In truth, we believe there is a range of “right” answers on the terms of a fund, and seeking to create a standard partnership agreement or side letter is unrealistic. There are several reasons—that contract negotiations tend to be a zero-sum game looms largest.

REASONS FOR SUCCESS

Standardization in financial services has been more successful when wide-spread adoption can lead to greater efficiency for all parties without concentrating the downside on any specific party or group. This dynamic has so far applied to documents that are less contentious. ILPA has had growing success in working with GPs to use capital call and distribution notice templates, setting standards for quarterly reports and a fee and expense template. Similar successes include the Loan Syndication and Trading Association’s syndicated loan documentation, the International Swaps and Derivatives Association’s master agreement for derivatives transactions, and more recently, the Tripartite’s data exchange template for European insurance companies.

INVESTOR ONBOARDING

Several platforms have focused on making onboarding more efficient within their ecospheres. Certain GPs have created in-house solutions to standardize the onboarding process

across their various funds, and at least one administrator has developed a similar solution for its fund clients. This seems sensible, but it does not address the underlying problem: most investors entrust multiple managers with their capital, and those managers use different service providers, and may operate in different jurisdictions and under varying internal policies. As is the case with many other internal infrastructure problems, working with an outside service provider may be the best path forward. Though a few firms have focused on an industry solution that is open architecture, we believe that The ID Register has several advantages.

Path Forward

The ID Register was created to help managers and investors comply with the US Foreign Account Tax Compliance Act (“FATCA”) and navigate the EU’s shifting and exacting regulatory landscape. We believe it offers a compelling solution to many of the problems that GPs and LPs must contend with: paper can be costly and needs to be fed into a scanner manually; couriers and e-mail can pose security challenges; and the resources required to process these documents carry a high opportunity cost.

Within The ID Register, LPs create a single profile that satisfies subscription eligibility requirements and includes enough anti-money laundering (“AML”) and know your client (“KYC”) information to comply with regulators in key jurisdictions, including the US, the Cayman Islands, Luxembourg, the UK, Ireland and the Channel Islands. Creating a profile is free, and once complete, LPs can share their profiles securely with GPs and outside service providers. Doing so eliminates the need to submit the same forms and answer the same questions when subscribing to each new fund.

Fund managers, however, need to pay a subscription fee that we expect will be offset by lower legal and administrative expenses. Regulators across most relevant jurisdictions have updated their guidance in recent years to support the use of technology in the subscription and AML processes. Moreover, The ID Register has adopted the highest common standard across the key funds jurisdictions, making it easier for GPs to comply, while spending less time and fewer resources following different sets of standards.

Ever the Innovators

One would think that the same issues that have derailed efforts to standardize partnership agreements in the broader private equity industry would exist in the start-up world. Not so. The National Venture Capital Association (“NVCA”) helped venture capitalists and entrepreneurs find common ground and agree to make concessions to make venture capital transactions more efficient, publishing a complete set of best practice form documents nearly two decades ago. Though influential, far from all venture companies are funded using the NVCA form documents.

The ID Register launched in July 2016 as an independent and centralized industry utility. It is wholly owned by Ipes (a leading fund administrator) as a distinct business unit, available to all industry participants. This "one-to-many" web-based solution benefits each of the stakeholders in the subscription process.

- » LPs spend less time performing tedious tasks that offer little marginal value. The profile is created once and shared with each fund the LP invests with. They can also share sensitive information more securely than hard copies, emails and couriers allow.
- » GPs enjoy a simpler sale process and can close each subscription faster and more efficiently. The ID Register can feed client data to a GP's customer relationship management, operations or accounting software automatically.
- » Regulators in several jurisdictions are assured that all LPs are subjected to the same level and quality of diligence; each investor that the GP vets is raised to the "highest common denominator." Information storage and sharing complies with global data protection requirements.
- » Outside service providers (e.g., law firms and administrators) spend less time on marginal services that generally irritate GPs and LPs alike, and more time providing more valuable services.

We understand that other functions may be added to the platform, including digitally executing subscriptions, verifying subscribers to funds that rely on the Jumpstart Our Business Startups Act and managing "most favored nations" elections and generating and executing the resultant side letters.

More than 15,000 LPs around the world have ID Register profiles (albeit to varying degrees of completion), and more than 140 GPs subscribe to the platform. Reaching so many groups so quickly evinces The ID Register's smart use of partnerships.

- » KPMG helps LPs create profiles that comply with FATCA and the Common Reporting Standard; it can also help GPs use the platform to file the related reports with multiple regulatory jurisdictions.

- » StepStone and a consortium of global law firms helped create the platform's Universal Subscription Questionnaire, which is supported by Dechert, a leading private markets law firm.
- » Several banks, administrators and other service providers may link into The ID Register as a common standard throughout the funds industry. We expect these agreements will be announced in the coming months.

Conclusion

Solutions are often developed on a scale appropriate for the problem they solve; these solutions, however, may lead to other problems on a completely different scale than the original problem. If the costs to these second-order problems are widely dispersed, it can be difficult to develop solutions to them, in spite of obvious improvements in system-wide efficiency.

LPs and GPs have approached investor onboarding in a manual and non-scalable way since the inception of the industry. We believe that through their experience as an administrator and interacting with investors in this traditional, non-scalable way, the team at The ID Register has learned what private markets need and developed a tool that improves efficiency and delivers a better onboarding experience for GPs and LPs alike.

StepStone strongly believes that standardizing investor onboarding will make this process better for our clients and the GPs with whom we invest. As a testament to our conviction, we are proud to partner with The ID Register. While we hope to financially benefit if The ID Register is successful we expressly confirm that a GP's decision to use the platform will have absolutely no bearing on StepStone's assessment of the GP on behalf of our clients.

We encourage the reader to explore the platform and the diligence materials available for GPs, LPs and service providers at www.theidregister.com.

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The Firm creates customized portfolios for the world's most sophisticated investors using a highly disciplined, research-focused approach that prudently integrates primaries, secondaries and co-investments.

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