

Users view on Post-Trading Barriers

The Buy Side & Industry Standards

with a focus on
Recommendations from efama's
Funds Processing Standardisation Group

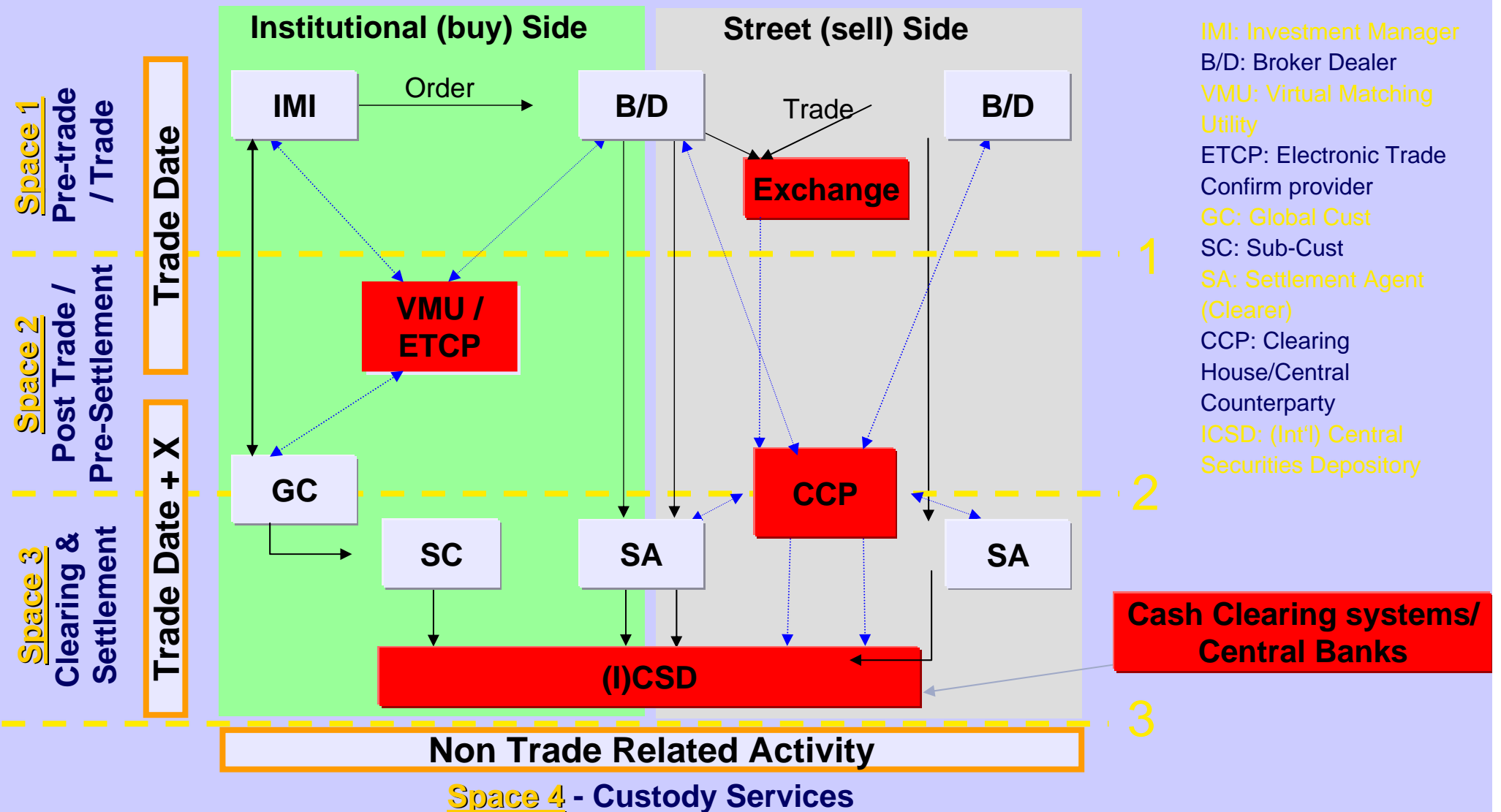
Bernard Delbeque & Rudolf Siebel
CESAME June 2006

Selected operations & infrastructure business issues for the buy-side outside fund processing:

- **Market Structure & Governance – Definition of Role and Position of Buy-side**
 - ◆ Clearing & Settlement Directive
 - ◆ Giovannini Reports
 - ◆ Market infrastructure governance / role of utilities
- **STP, Messaging**
 - ◆ EU wide implementation of ISO 15022 FIX as pretrade/trade messaging standard
 - ◆ EU wide implementation of ISO 15022 SWIFT as posttrade/settlement standard
 - ◆ EU wide standing settlement instructions workflow solution(s)
 - ◆ SSI bilateral or database exchange
 - ◆ EU wide messaging protocol (SWIFT Giovannini Barrier 1 consultation)
 - ◆ Standards for derivative instruments
- **Data Issues**
 - ◆ Reference data standard and licence issues,
 - ◆ Identification of parties & accounts (BIC/BEI/IBAN; ISIN; MIC; IBAN)
 - ◆ ISO 20022 Total Holdings Statement
 - ◆ CUSIP/ISIN user fees
 - ◆ MIFID – best practice, realtime data, reference data, standard protocol, IT issues

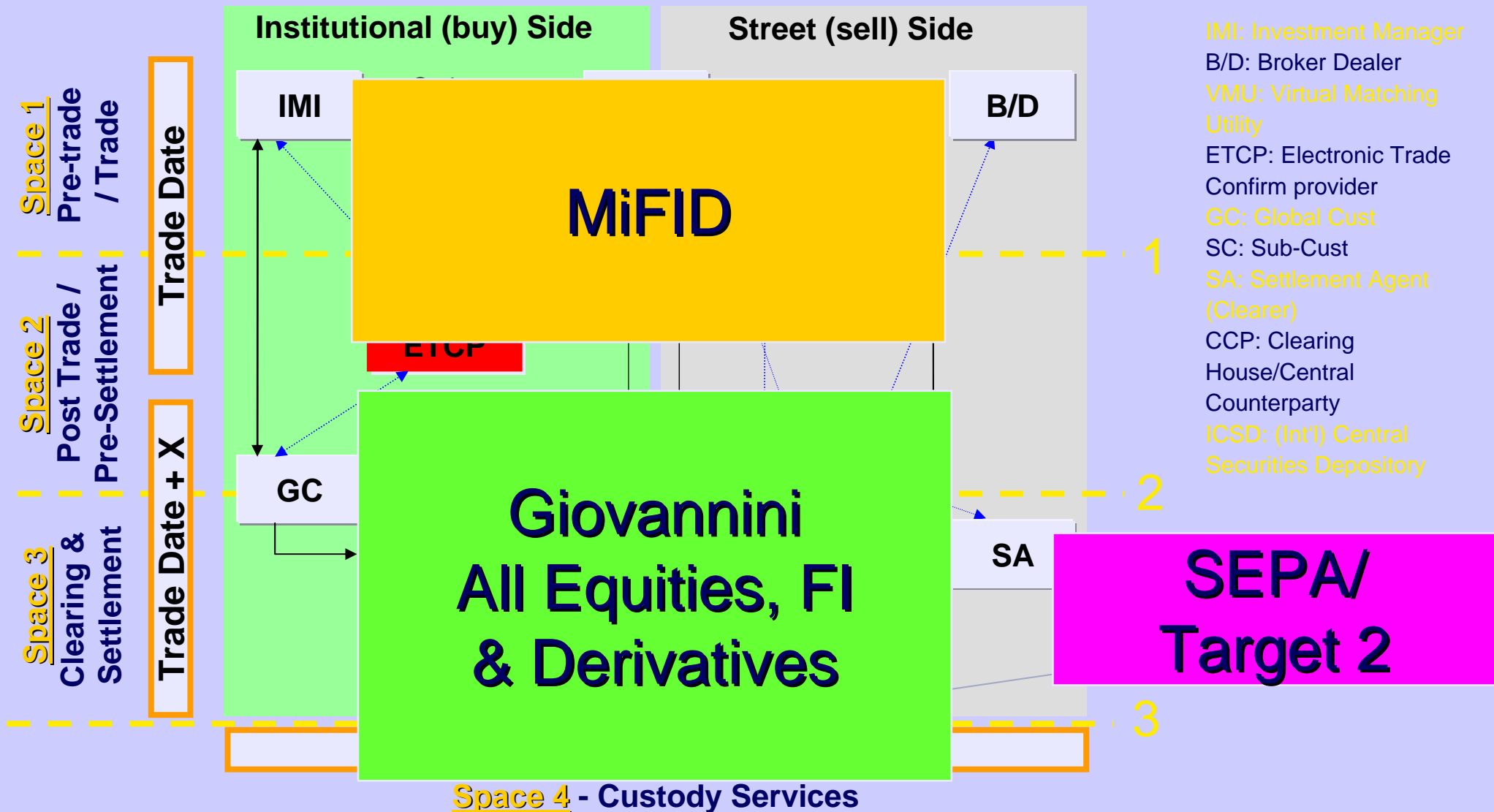
Giovannini Barrier 1 consultation

Which markets are covered?



Giovannini Barrier 1 consultation

Which markets are covered?



How to reach the same level of STP for funds as for securities & payments in a cost-efficient way

Standards

ISO 20022

Messaging

**Giovannini Barrier 1
Report compliant
providers**

STP benefits

**Business process
harmonization**

**efama
FPSG**

**Market practice
harmonization**

**Securities
Market Practice
Group**

Some issues in funds processing

- **General/pre-trade/accounting**
 - ◆ Lack of common identifiers of funds, fund providers, distributors, etc.
 - ◆ Outdated communication methods
 - ◆ No common rules on number of decimal digits
 - ◆ Lack of common messaging standards
 - ◆ ...

- **Trade**
 - ◆ Different pricing policies across fund management groups
 - ◆ Different valuation times
 - ◆ Different requirements on customer information
 - ◆ ...

- **Post-trade/pre-settlement**
 - ◆ Deal confirmations
 - ◆ ...

Some issues in funds processing

■ Settlement/delivery

- ◆ Different rules for sales and redemptions
- ◆ Different payment methods
- ◆ ...

■ Post-trade/custody

- ◆ Lack of standardisation on calculation of commissions
- ◆ Different custodians' frequency/timeliness requirements
- ◆ ...

efama FPSG recommendations coverage («Phase 1» STP & Messaging)

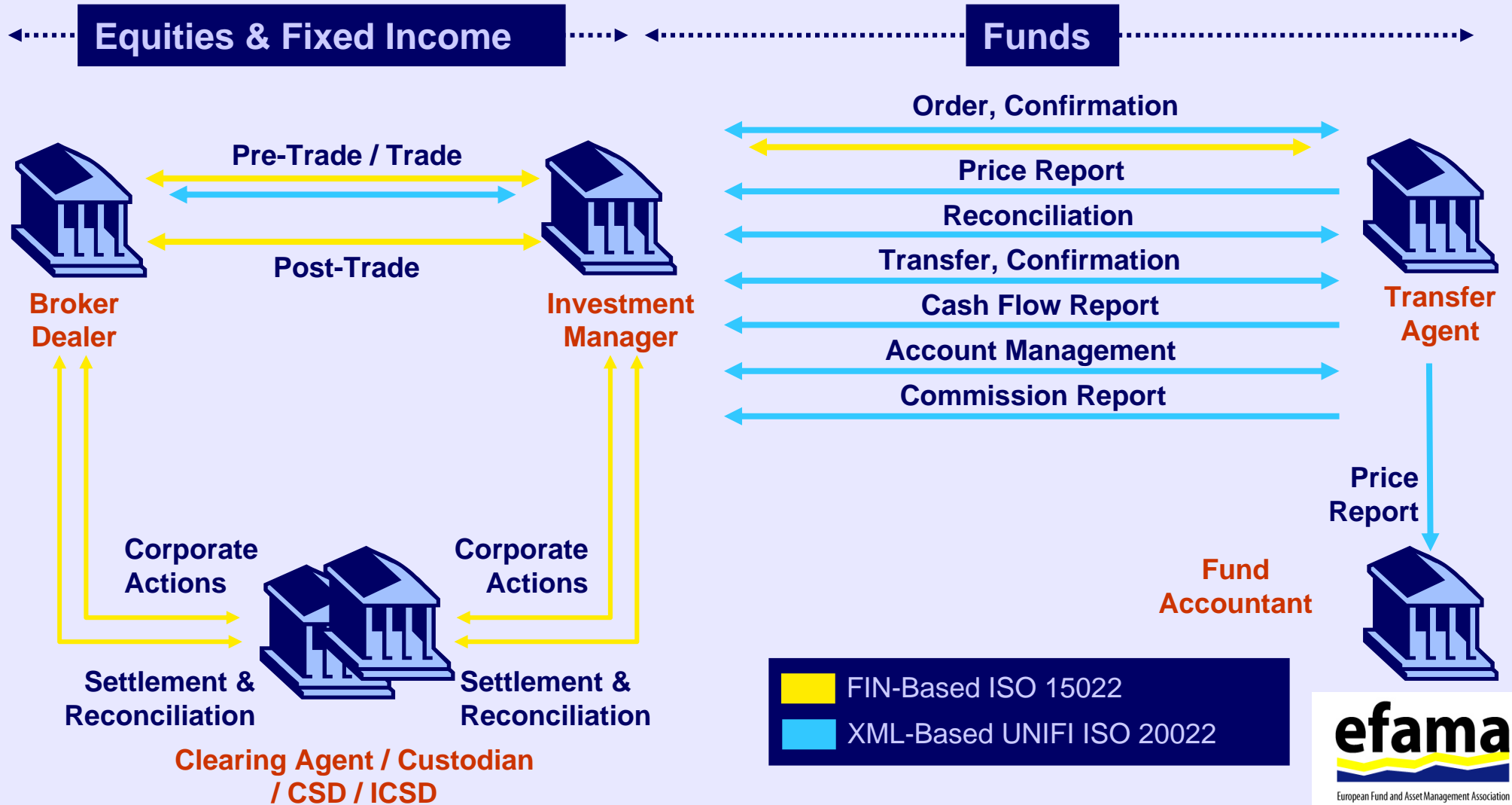
- **Electronic order processing**
 - ◆ Use of ISO 20022 UNIFI fund processing messaging standard
- **Account opening and referencing**
- **Order acknowledgement and confirmation**
- **Settlement**
- **Introduction of Fund Processing Passport (FPP)**
 - ◆ FPP = a document to summarize, at class level, the essential information on investment funds that should be provided by the fund provider in order to facilitate funds processing
- For details see: « Standardization of Funds Processing in Europe: Order and Settlement – A Perport from efama’s Fund Processing Standardization Group », dd. 9 February 2005

Efama “Fund Processing Action Plan”

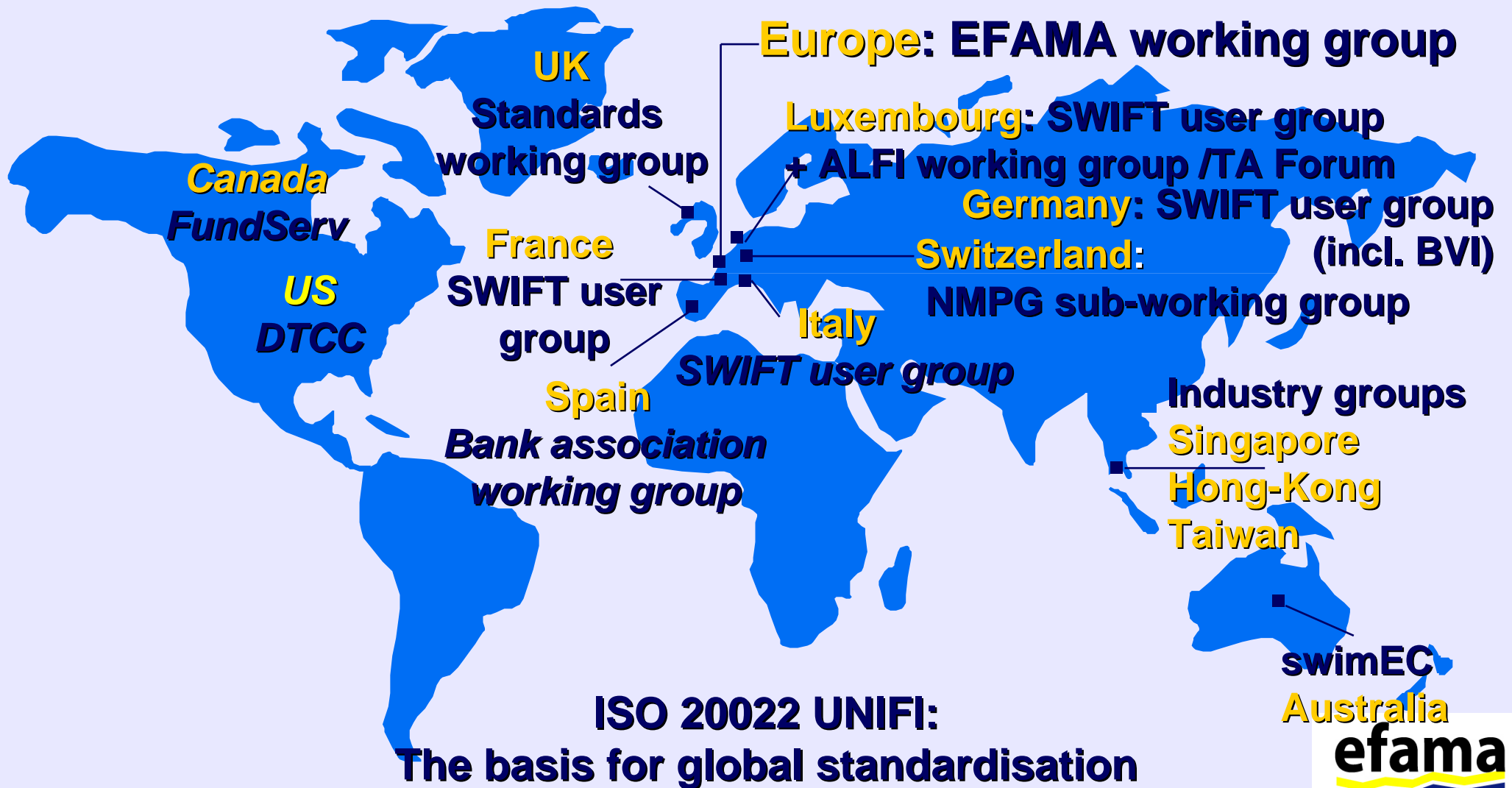
Do you think that on-going industry driven standardisation will deliver fruit within a reasonable time frame?

- To encourage industry-wide endorsement by all players involved in fund processing, the Board of Directors of EFAMA adopted a fourfold “Fund Processing Action Plan” at its meeting of 21 September 2005:
- The FPSG will prepare a “business case model” to facilitate the endorsement and implementation of the FPSG recommendations, in particular adoption of ISO 20022 UNIFI messaging standard by fund groups, distributors, service providers as well as national associations.
- EFAMA member associations will apply for identifier codes (BIC/BEI) for their members and encourage the use of ISIN codes to identify funds at the level of each individual share/unit class.
- EFAMA member associations will also encourage the formation of national market practice groups for fund processing within, or in cooperation with, their organisations.
- The FPSG will organize a Round Table with all interested European/international organizations to discuss the case for standardisation in fund processing.

Securities Market Practice Group (SMPG): Scope of Market Practice Investment Funds based on UNIFI ISO 20022 (xml), ISO 15022 (FIN) messaging standards



Global harmonisation efforts



Efama “Fund Processing Action Plan”

Do you think that on-going industry driven standardisation will deliver fruit within a reasonable time frame?

- We believe that EFAMA’s effort to promote standardisation in fund processing will deliver fruit within a reasonable time frame if a large majority of its members – both corporate members and members of national associations – endorse the FPSG recommendations – especially the use of ISO 20022 messaging standards – and start implementing them in the short to the medium term.
- We hope that a clear endorsement by the buy-side will give a clear signal to other market participants involved in fund processing, especially fund distributors, that the fund industry is moving to a more harmonized and efficient system of fund processing. This will facilitate their decisions to adapt their back-office systems to the new standards, and this will result in more standardisation and automation of fund processing.

The End...

**For FPSG Documents
visit the « efama standards » section in
www.efama.org**

**If you have any questions and/or comments
send us an e-mail at info@efama.org**

APPENDIX

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Introduction to efama FPSG

- **June 2003:** FEFSI's Board of Directors decided to create the FPSG in order to « define, approve, develop or mandate development of pan-European standards relevant to the whole complex of order processing (and if necessary beyond) – including communication standards and business practices »
- **September 2003:** The FPSG met for the first time under the chairmanship of **Rudolf Siebel**, Managing Director at BVI
- **November 2003:** Creation of a WG on Fund Transaction Best Practices chaired by **David Broadway** (IMA) and a WG on Fund Data Issues chaired by **Bernard Descreux** (DIAMS)
- **February 2005:** Publication of FPSG recommendations on « Order and Settlement »
- **May 2005:** Questionnaire on implementation of FPSG recommendations
- **September 2005** efama BoD adopts action plan

Key recommendations

■ Electronic order processing

- ◆ Use of universally recognized unique identifiers

- ➔ Identifiers for financial institutions: BIC/BEI code for the time being and IBEL in due course

- ➔ Identifiers for funds: ISIN codes at the lowest level (eg. share class)

- ◆ Use of international open market standards

- ➔ ISO 20022: the single European standard for funds messaging

- ➔ Other existing standards should converge towards ISO 20022

- ➔ Proprietary message standards should be avoided

Key recommendations

■ Account opening and referencing

◆ Adoption of a standard data set for account opening information

→ Account type (Private, legal entity, EU residual entity)

→ Beneficial owner (Title, First name/legal entity name, Surname(s), Female/Male/Company, Date of birth, Citizenship, Place of birth, Personal ID card number/passport number, Country of issue, Tax ID number, etc ...)

→ EU Savings Directive Options

→ Bank Account Information for Outgoing Payments

Key recommendations

■ Order acknowledgement and confirmation

- ◆ Deals should be acknowledged or rejected by the fund-side institution as soon as possible after receipt
- ◆ Client-side institutions should identify any discrepancies in the acknowledgement as soon as possible after receipt
- ◆ Confirmations should be issued no later than overnight following pricing of the order
- ◆ Details of any associated foreign exchange transaction should be included within the confirmation message

Key recommendations

■ Settlement

- ◆ Settlement should occur on a predetermined date
- ◆ Settlement for both sales and redemptions should be made electronically between client-side and fund-side institutions or effected via a CSD/ICSD
- ◆ Payments should include reference to the order(s) to which they relate

Fund Processing Passport (FPP)

- **FPP** = a document to summarize, at class level, the essential information on investment funds that should be provided by the fund provider in order to facilitate funds processing
- The FPP should be drawn up from the viewpoint of all players involved in the operational aspects of investment funds distribution
- The FPP should be prepared for the main TA/fund provider in the country of domiciliation of the fund
- There should be a version of the FPP for each country where the fund is registered for distribution

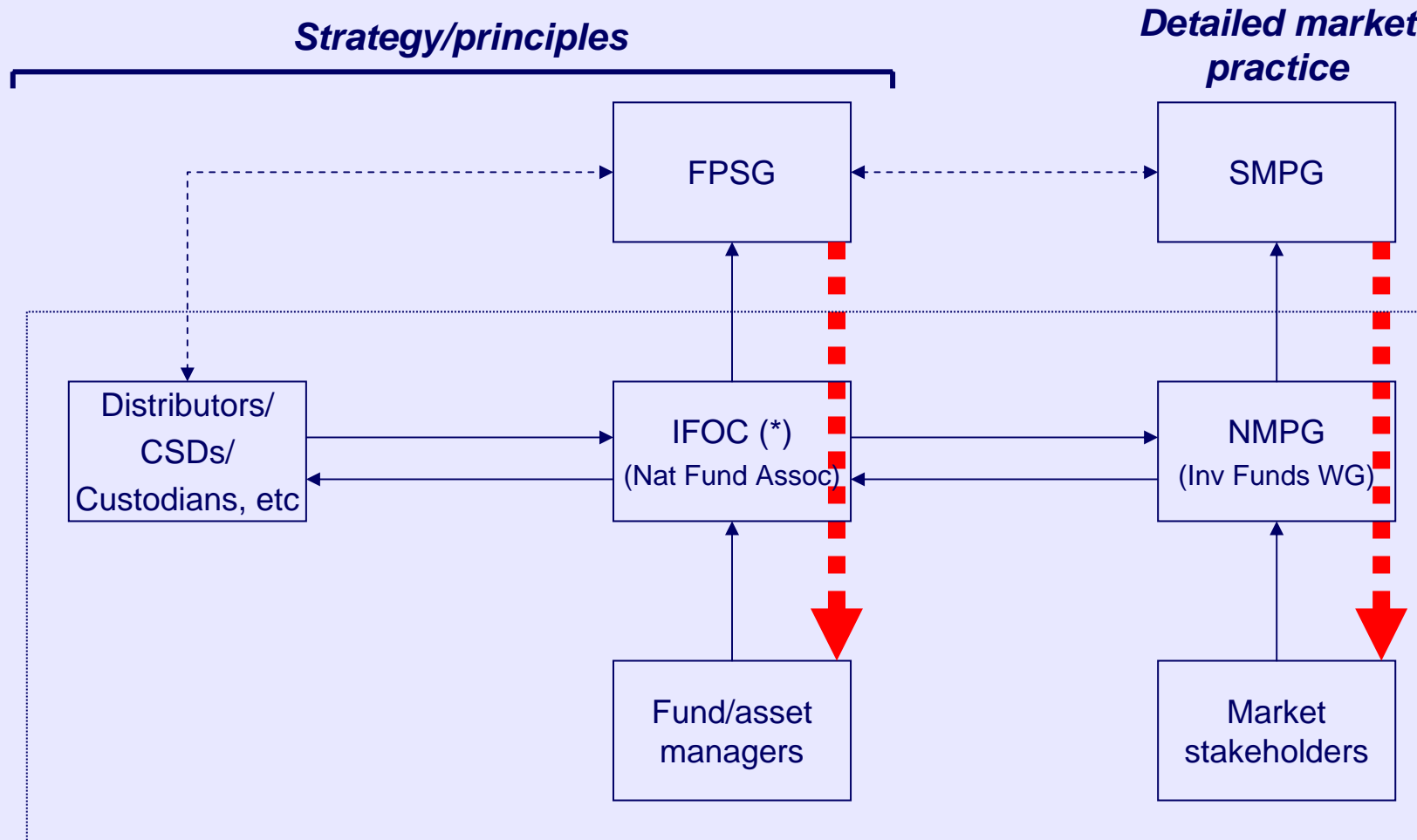
Efama “Fund Processing Action Plan”

- *The FPSG will prepare a “business case model” to facilitate the endorsement and implementation of the FPSG recommendations by fund groups, distributors, service providers as well as national associations.*
- Numerous discussions with participants from the industry throughout 2005 have led to the conclusion that it would be very difficult to come up with a general business case paper for the industry as such because of the lack of data.
- Develop the business case by describing the automation efforts of individual firms (“success stories” explaining the benefits of standardization).
- Efama FPSG ISO 20022 works on business case paper to be presented in July 2006

Efama “Fund Processing Action Plan”

- *EFAMA member associations will apply for identifier codes (BIC/BEI) for their members and encourage the use of ISIN codes to identify funds at the level of each individual share/unit class.*
- The registration procedure for the ISO Bank Identifier Code BIC codes to identify fund providers was launched on 16 January with a circular to EFAMA’s member associations.
- EFAMA received files from **Austria, Czech Republic, Hungary, Italy and Turkey**: these files have been forwarded to the ISO registration authority (SWIFT).
- EFAMA also received questions from **Poland, Finland, France and the UK**, and it is supposed these associations will apply in due course.
- The process is finished in **Germany**.
- The **Swiss** association currently does not want to apply for the BIC codes for its members.
- Use of **ISIN codes** to identify funds at the level of each individual share/unit class is mostly the case.
 - ◆ Why SEC number for identification of mutual funds?

Model for cooperation between the FPSG, the SMPG, EFAMA member associations and other key players



(* Investment Fund Operations Committee)

Efama “Fund Processing Action Plan”

- *EFAMA member associations will also encourage the formation of national market practice groups for fund processing within, or in cooperation with, their organisations.*
- National Market Practice Groups (NMPGs) for the discussion of the adoption, use and development of fund message standards have been established in France, Germany, Italy, Luxembourg, Switzerland and the United Kingdom.
- In Sweden, Norway, and Austria fund market practice groups are in discussion/formation.
- Spain and Netherlands are participating in intl. SMPG.
- These groups carry most of the burden of facilitating the adoption and implementation of fund processing standards, including but not limited to the FPSG recommendations within their respective markets.
- With the help of EFAMA an international fund market practice group has been set up within the Securities Market Practice Group (SMPG) framework. Within SMPG funds group, the efforts of the various national NMPGS are coordinated.
- The chair and members of the EFAMA FPSG also serve as the Vice Chairman and members of the SMPG respectively in order to facilitate and coordinate the fund processing standardisation effort at this level.

Efama “Fund Processing Action Plan”

- *The FPSG will organize a Round Table with all interested European/international organizations to discuss the case for standardisation in fund processing.*
- A Round Table will be organized in September or October to discuss fund processing issues and the FPSG recommendations with all interested European/international organizations, especially those representing banks, distributors and TAs that are the counterparts of fund promoters in back-offices operations.
- Cooperation with ISSA, the International Securities Services Association, which is representing large distribution banks. ISSA has engaged with EFAMA in a joint questionnaire on the acceptance of the EFAMA fund processing recommendations. ISSA has set up a funds working group that cooperates with the FPSG.
- ISSA’s focus is on streamlining the settlement process of funds in Europe more or less along the same terms as the settlement of equities in bonds and focusing on the use of central securities depositories in the fund area.

Efama “Fund Processing Action Plan” Fund Processing Passport (FPP)

- A FPSG working group has been established to prepare the ground for the implementation of the Fund Processing Passport
- The adoption of the FPP as a new standard would contribute to increase efficiency in the fund industry, especially in cross-border situations, by promoting the accessibility of standardized information on investment funds to all the relevant professional players involved in the operational aspects of fund transaction processing:
 - ◆ investor intermediaries,
 - ◆ distributors, distribution platforms,
 - ◆ fund management companies and their services providers (transfer agents/registrars, fund accounting agents, trustees, custodians, portfolio managers ...).

Next steps: FPSG

- Coordinate and support fund standards / early adopters groups
- FPSG future work
 - ◆ Short-term
 - ◆ client-side reconciliations
 - ◆ commissions processing
 - ◆ Longer-term
 - ◆ Transfers of title to fund units
 - ◆ Processing of income entitlements
 - ◆ Corporate actions
 - ◆ Presentation FPP
 - ◆ Adopt of guidelines on layout, format, quality control
 - ◆ Review proposals for easy access to the FPP
 - ◆ Messaging
 - ◆ Check definitions in the ISO 20022 Dictionary
 - ◆ Translate the FPP content into ISO 20022-based messages
 - ◆ Reference Data
 - ◆ Develop work plan to support, coordinate, and harmonize efforts at national level (e.g. DIAMS, Funds-xml, TIF), ISO (ISO WG 11 and ISO 20022 static data message)