

Investment Managers

on SWIFT



THE VALUE OF SWIFT TO INVESTMENT MANAGERS

ISSUE 6 Q2 2010



Automation rates for funds processing

New report shows ISO
20022 use on the rise

pg11



How can SWIFT help you?

What's on offer for investment
managers?

pg4

Striking the balance

Advancing automation in mainland China

Partnerships for standardisation

pg3

How Hong Kong marries investor protection and industry development

pg9



A new word for cross border



Euroclear is making cross-border settlement an obsolete term. We will help clients reduce their back-office costs, risks and complexities with our multi-currency Single Platform, spanning a wide range of securities and markets. Together with harmonised market rules and practices, all markets covered by Euroclear will operate as one. Eliminate cross border from your settlement vocabulary.



SWIFT partnership with Ysstech advances automation in mainland China

The resumption of QDII quotas will spur standardisation activity



China's State Administration of Foreign Exchange (Safe) has provided the first two 'qualified domestic

institutional investor' (QDII) quotas in 2010, following a break during the financial crisis. This policy change provides a strong signal that QDII business will accelerate in 2010. The six investment management firms to receive the quota are E-Fund (Guangzhou), China Merchants Fund (Shenzhen), Borera, Changsheng, China Universal and UBS SDIC. More firms are expected to receive QDII quotas in the coming months.

The SWIFT team has been working diligently in China to increase awareness of international standards and automation. Nine asset management firms with a QDII quota have already joined the SWIFT community and are making plans for implementation.

A key component in automating the Chinese market is strong partnerships with local vendors to help these asset management companies automate. Leading the way on this initiative is SWIFT's partnership with Ysstech, a major vendor in the Chinese asset management industry, claiming a 100% market share among Chinese investment management institutions. In 2009, for example, Ysstech worked with SWIFT to map out flows

in the asset management industry for investments outside of Mainland China.

Founded in 2001, Ysstech is now one of the major financial service software suppliers in China. Specialising in back-office solutions for mutual funds, social security and other collective funds, trusts, insurance, QFII and QDII, the company has also achieved considerable progress in the front and middle office area in recent years. It is headquartered in Shenzhen and has nearly 400 employees in Beijing, Shanghai, Guangzhou and Shenzhen.

"SWIFT is an international organisation with a high reputation in the financial communication industry," says Mr. Zhou Xuefeng, director of the technical support department at Ysstech. "Through our partnership with SWIFT, we can support our customers in conducting business all around the world in the most efficient and secure way. Our customers will benefit from the operational efficiency and the ease of access Alliance Lite provides."

Ysstech will also be working with Fortune SGAM, a joint venture of Baosteel Group and Société Générale Asset Management in furthering automation in the investment management sector. The joint venture is one of the first of its kind. "The cooperation between SWIFT and Ysstech will provide us a fully automated solution," notes Ms Liang Rong, clearing

department, Fortune SGAM. "It will substantially increase our operational efficiency and make us well prepared for future substantial growth."

Welcome to Issue 6 of Investment Managers on SWIFT

Welcome to the XXth edition of Investment Managers on SWIFT. As you are now familiar with the publication, I will keep my comments short. Since we launched the first issue in 2008, the key concerns of our community have been consistent: reducing cost and risk and improving efficiency. SWIFT has long been a strong advocate of the role of straight-through processing in furthering these aims and many of the articles in these pages address this theme directly or indirectly.

At a practical level we are pleased to focus on several partnership initiatives which we think will help further the cause of automation across the investment management industry as a whole, bringing benefits not only to the users of these services, but to their counterparties too.

*Angus Fletcher,
co-head, securities,
SWIFT*

As ever, we welcome your feedback on the content of the publication. Please address any comments to: IMonSWIFT@swift.com.
Enjoy reading!

How can SWIFT help you?

In the current difficult economic environment, you are facing a number of serious challenges. SWIFT can help you address them.

Risk management and compliance have become a critical focus as regulation drives new operating and investment practices. You must cope with a shift in business emphasis towards derivatives products, handle the additional burden of new regulations and reporting requirements, and make management of exposure across asset classes a priority.

SWIFT can help you by providing a consistent industry solution for collateral and risk exposure management, and standards for transaction reporting and regulatory compliance.

Operational efficiency is a top priority, to cope with variable trade volumes in a cost-efficient, low-risk manner. You need to reduce fax and other proprietary communications to achieve high rates of straight-through processing (STP).

SWIFT offers standards for the entire lifecycle of a transaction, to eliminate costs associated with supporting multiple formats and connections to clients, service providers and counterparties across different products.

You are investing in **new instruments** and dealing with **more counterparties** – many of which you have not directly chosen to have business relationships with, but have acquired as a result of investment mandates. Your back office needs to become more flexible to handle new, more

complex, asset classes. Time to market becomes a critical element in order to ensure you are supporting the competitive needs of your front office.

SWIFT can help by supporting a broad range of asset classes across equity, fixed income and alternative investments, and providing connectivity to a wide array of counterparties for standardised messaging.

Operational outsourcing enables you to offload areas of the business that fall outside your core competencies to specialist providers. Accurate, timely and consistent reporting is crucial to maximise the benefits of outsourcing.

SWIFT can help by ensuring consistency of communication connectivity and messaging standards to all counterparties. This enables maximum efficiency, reduced risk and optimum timeliness of information.

Data management and reporting requirements are becoming more complex. You are required to prove best execution in response to regulation imposing new levels of transparency on the market, so you need a solid strategy for managing the variety of data you handle, including client and counterparty data and market data. You need seamless integration of different data sources as a prerequisite for efficient risk management and operational efficiency.

SWIFT can help by providing standardised messaging to ensure consistency in data management.

SWIFT provides:

Solutions

For Corporate Actions, Derivatives, Funds and Proxy Voting. Our solutions help you reduce your costs, mitigate your risks and increase your service levels. New solutions with Bloomberg (post-trade processing) and SmartStream (SaaS reconciliations) open up further opportunities for you to cut costs and risks by using SWIFT.

Applications

Your SWIFT connection offers access to a wealth of applications, including Accord for real-time matching and exception handling of foreign exchange, money market, derivative and securities trades.

Standards and market practice

Developed in co-operation with the securities, payments and treasury industries, to streamline messaging and increase efficiency of communications.

Messaging

Enabling investment managers and their counterparties to automate the delivery and receipt of information required to conduct their business, ranging from equity trade execution and settlement through to foreign exchange and money movements.

Connectivity

Enabling investment managers and their counterparties (broker/dealers, electronic trade confirmation providers, banks, central securities depositories, transfer agents and fund administrators) to communicate over a single network.

Services

Including our Partner programme, to help investment managers choose the right third-party suppliers, and our Business Assessment Programme, which provides dedicated teams of experienced consultants to analyse your business flows or your infrastructure, or both, to help you reduce your total cost of ownership, lower your operational and reputational risk and identify opportunities for business growth.

Stick with the programme

Ian Bessarabia, regional account manager, Africa South, SWIFT explains why, when belts must be tightened, STP should not be sacrificed.



Ian Bessarabia, regional account manager, Africa South, SWIFT

These days, cost-cutting is on everyone's agenda. That is understandable. What I find surprising, however, is a shift in attitude to straight-through processing (STP) among some securities market participants as a result.

A decade ago, achieving STP was seen as a way of cutting costs. The focus was on how firms could get the most out of standardisation. Today, however, some firms are looking to cut costs at the expense of STP. Faced with cost pressures, both internal and external, they are trying to get by with minimum implementations rather than exploring how they could maximise efficiency by leveraging their investments in automation.

In my view, this is short-sighted. STP is a journey, not a destination. Once you have begun, you need to maintain momentum or see your gains eroded as technology overtakes you.

Firms should be thinking towards the future, not simply focusing on the 'now'. In the present economic environment, that is obviously a challenge. Investing in STP is not only a question of money, however; time and effort are equally important resources.

The real alternative to keeping abreast of the latest standards and, where possible, being engaged in the standards setting process, is to end up down the road as a passive recipient of standards that others have created.

The flipside of investment in STP and standardisation is the benefit derived

from it. As with the payroll department in a firm, this is easy to take for granted when things are running smoothly. But the minute something goes wrong, people regret the inefficiencies they could have dealt with earlier.

One-stop portal centralises information

Investment managers on SWIFT now have access to a new microsite

A 'microsite' targeted specifically at the investment management community has been set up to provide investment managers with a one-stop information source about SWIFT: how to build a business case for investing in SWIFT or getting more out of an existing SWIFT connection; the solutions available by asset class and business area; how to get started on SWIFT; what the custodian community is providing via SWIFT; how SWIFT's wide range of partners can help investment managers extract the full benefits from their investment in SWIFT; and the views and experiences of investment managers using SWIFT already.

Visit www.swift.com/investmentmanagers today to find out more about how SWIFT can help investment managers.

The flipside of investment in STP and standardisation is the benefit derived from it... this is easy to take for granted when things are running smoothly. But the minute something goes wrong, people regret the inefficiencies they could have dealt with earlier.

Ian Bessarabia, regional account manager, Africa South, SWIFT

Funds migration to MX leaps ahead

The funds business is giving a clear thumbs-up to ISO 20022 messages designed for their community.

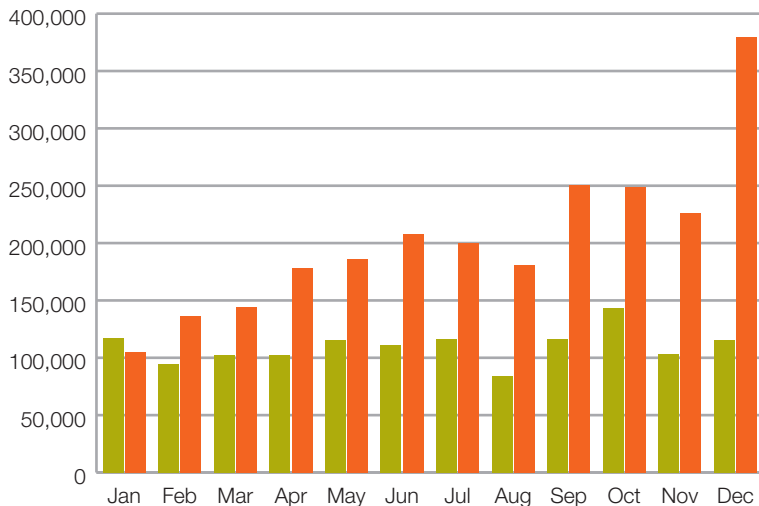
Last year saw ISO 20022 (MX) funds traffic on SWIFT increase by 85% compared to 2008. Of the top 20 fund institutions on SWIFT, 14 are now live on MX, four are MX-enabled in pilot phase and one is set to begin the pilot process imminently.

Even without a formal drive to migrate traffic to MX, SWIFT recorded a strong

increase in the MX share of total funds traffic on the network from 5.4% in December 2008 to 13.3% in December 2009.

The objective for the end of this year is to have the top 20 institutions on SWIFT exchanging funds MX messages between themselves and order senders and to ensure that all remaining players in Luxembourg and Ireland are MX enabled

MX fund traffic



New release for OTC Derivatives solution

Release 3.0 of the Derivatives solution is now available

In addition to the current FpML 4.2 and 4.4 messages, all messages in the Derivatives solution are now available in their FpML 4.6 version. Four new FpML 4.6 notification messages have also been added, covering the amendment and change processes. The Closed User group now also contains seven ISO 20022 payment and cash management messages.

For general information about the Derivatives solution, please refer to <http://www.swift.com/solutions/solutions/derivatives.page?>

For the release 3.0 documentation, please go to the User Handbook download centre.

Meet SWIFT

17 June 2010

Business Forum
Luxembourg

25 June 2010

Business forum
Tokyo

28 June-2 July 2010

Fund Forum International
Monaco

15 July 2010

Executive Forum
Beijing

1 September 2010

Business Forum
Seoul

25-29 October 2010

Sibos
Amsterdam

Bloomberg brings low impact SWIFT connectivity to investment managers

Full post-trade lifecycle support for customers of Bloomberg's AIM order management system is now available

Bloomberg has connected to SWIFT to provide post-trade messaging for trades executed on its AIM system, thereby providing full trade lifecycle support for these customers. AIM (formerly known as POMS) is an ASP-based order management system used by more than 500 investment management organisations worldwide.

Key benefits of the service include easy and standardised access to SWIFT messaging and reduced operational cost and risk. A simplified joining process means that customers can join SWIFT and subscribe to the 'SWIFT over Bloomberg' solution in three simple steps. No technical implementation is required at the customer's premises. "The partnership between SWIFT and Bloomberg now gives customers a unique solution with significant connectivity and functionality without large technology spend," says Mousuf Chowdhury, post-trade solutions

business manager, Bloomberg AIM. "The value to investment managers in terms of their reduction of risk is considerable and Bloomberg is proud to offer this as the first of a number of unique solutions that extend the power and functionality of Bloomberg's Asset and Investment Manager trading system (AIM). Customers are already seeing the benefits of the solution and will continue to gain an operational advantage from the partnership."

Each investment manager taking advantage of the SWIFT over Bloomberg solution joins SWIFT with its own BIC that is dedicated to the Bloomberg service. The BIC is added to Bloomberg's SWIFTAlliance infrastructure and all technical aspects such as licensing, configuration, and generation of FIN messages, are undertaken by Bloomberg. The investment manager benefits from standardised connectivity to brokers, custodians and other parties without having to absorb the technical intricacies of SWIFT and FIN. As all technical implementation is undertaken by Bloomberg

and SWIFT, the solution imposes no technical change on the customer.

In the current release, Bloomberg can generate MT 304 and MT 541/3 settlement instructions to custodians. In subsequent releases, Bloomberg plans to offer MT 300 confirmations for FX together with matching in Accord, reconciliation of cash and securities statements (MT 950 & MT 535) and other functionality, such as instructions to transfer agents.

Bloomberg's investment manager clients gain streamlined access to the SWIFT community via their centrally hosted order management system, thereby aligning with industry best practices for post-trade processing, and reducing operational costs and risk.

"The integration between Bloomberg's AIM trading system and SWIFT provides a low-cost technology solution to a serious operational problem," says Dan Matthies, global head of Bloomberg AIM. "It is yet another example of how both companies continue to work closely together to give our customers a genuine edge."

For the convenience of investment managers taking advantage of SWIFT over Bloomberg, there is a monthly fixed fee for the solution. Investment managers interested in subscribing should in the first instance contact their Bloomberg relationship manager, and then contact SWIFT.

The integration between Bloomberg's AIM trading system and SWIFT provides a low-cost technology solution to a serious operational problem.

Dan Matthies, global head of Bloomberg AIM

SimCorp proves readiness to process SWIFT ISO 20022 messages

Proof of concept opens the door for greater STP

SWIFT and SimCorp, a leading provider of specialised software and know-how for the financial sector have together successfully completed a proof of concept, demonstrating that SimCorp Dimension, the company's solution for investment management businesses, can accept, process and transmit SWIFT ISO 20022 MX messages.

These messages offer greater clarity and have wider application than earlier protocols, enabling investment managers to improve straight-through-processing rates. Consequently they can drive down costs, reduce operational risk and readily accommodate increased volumes as their businesses grow.

In a recent white paper, Kjell Nordgard, senior vice president, Simcorp A/S, observes that market conditions experienced over the past couple of years have put increased focus on STP. "Investment managers need to control risks and ensure that costs measured as basis points of assets under management are kept at an acceptable level," he says.

Investment managers need to control risks and ensure that costs measured as basis points of assets under management are kept at an acceptable level.

Kjell Nordgard, senior vice president, Simcorp A/S

The proof of concept involved bringing together SWIFT's Alliance Integrator, the configurable SWIFT-specific integration platform, and SimCorp Dimension. This combined solution will be complemented in future by one based solely around SimCorp Dimension.

"SimCorp is a longstanding member of SWIFT's partner programme and geared up to position itself as a front-runner software provider in terms of MX adoption," says Patrik Neutjens, head of partner management at SWIFT. "We value our partnership with this leading-edge investment management software provider and are confident that our partnership will translate into tangible added value for SimCorp users."

Marc Schröter, vice president at SimCorp notes that, "The range of MX messages of direct interest to the investment management community, notably for securities settlement and corporate actions, will broaden dramatically over the next year and beyond. We are very happy to have been able to work with SWIFT to show that we are ready to offer our customers the solution they will require as they move forward."



SmartStream Technologies provides enterprise-wide, real-time

transaction lifecycle management (TLM) solutions to 1,000 clients, including more than 75 of the world's top 100 banks. One of its key areas of expertise as far as the asset management community is concerned is in reconciliations. SmartStream's TLM OnDemand offers the functionality of its TLM Reconciliations solution in a SaaS (Software as a Service) framework. The service assumes responsibility for hardware purchase and hosting, software and database maintenance, data backup and archiving services, business continuity, and all software upgrades and testing.

"The biggest challenge for asset managers today is not actually the reconciliation itself, but the data the firm is trying to reconcile," says Alastair McGill, executive vice president, business development & alliances, SmartStream. "There is a massive variety of data formats required for reconciliation."

TLM OnDemand has been designed to receive copies of SWIFT FIN messages over SWIFTNet as they are sent from customers' account servicers. Customers can then use SWIFT's FileAct or FinInForm to send their general ledger (GL) transactions and statements to TLM OnDemand, where the transactions are matched and exceptions identified. There is

Joining forces for customer benefit

SWIFT and SmartStream have partnered to enable financial institutions to communicate with SmartStream's TLM OnDemand reconciliation service via SWIFT.

no need for clients to manually create new message formats, and all of the communications are delivered over SWIFTNet.

"We are enabled by SWIFT to receive messages over the SWIFT network," says McGill. "We can take in the SWIFT message types direct from the account servicer or the client and reconcile those messages directly. That provides a big benefit for the client because the value proposition of SWIFT has always been that the greatest degree of standardisation and STP brings lower cost and lower risk to the institution."

Existing SWIFT customers can reuse their SWIFT infrastructure to use SmartStream's service, reducing transaction breaks,

operational risk and time to process transactions, while maximising their return on investment and minimising total cost of ownership (TCO).

For those not yet on SWIFT, McGill believes the arrangement provides a good reason for firms to consider joining. "If I were an asset manager, I would want to reduce the costs associated with my operations," says McGill. "The benefit of SWIFT is that it offers me a secure network with standardised message types."

SmartStream is a long-standing SWIFT Partner and was awarded its first SWIFTReady label 11 years ago, when the SWIFTReady label programme was first created.

If I were an asset manager, I would want to reduce the costs associated with my operations. The benefit of SWIFT is that it offers me a secure network with standardised message types.

*Alistair McGill,
SmartStream*



Striking the balance

Hong Kong aims for an optimum balance between investor protection and industry development.



The 3rd Annual Conference of the Hong Kong Investment Funds Association on

29 September 2009 attracted 220 delegates, covering all corners of the industry, including fund management companies, regulators, banks, insurance companies, trustee companies, legal and accounting firms and other related professions.

While taking advantage of the numerous networking opportunities, delegates were keen to exchange ideas about the funds management industry and in particular its regulation. Welcoming conference participants, Desmond Ng, chairman of the Hong Kong Investment Funds Association, addressed the issue head on. "We believe it is extremely important that as an industry, we work closely together to shape a pragmatic regulatory framework and a sustainable business environment for the whole industry," he said, adding that in the coming months, he and his team at the HKIFA would be soliciting comments from members to ensure that the anticipated regulatory reforms strike

an optimum balance between investor protection and industry development.

Martin Wheatley, chief executive of the Securities Futures Commission set the scene by sharing his views on the regulatory framework, especially after the financial crisis. He recalled his presence at the previous HKIFA conference, which took place in the thick of the financial crisis. Hundreds of investors had then taken to the street over the alleged mis-selling of 'minibonds' by banks. The SFC had pledged to put things right. "Now that a year has passed, I would like to take today's opportunity to update you on our regulatory work in the funds space," said Wheatley. "While many changes and new developments have taken place, the fundamental fact remains that the SFC has to maintain a regulatory regime that promotes market development while protecting investors' interest."

Au King-chi, permanent secretary for financial services and the treasury (financial services) in The Government of the HKSAR spoke of Hong Kong's fundamentals and the impact of the global financial crisis in Hong Kong. But on a brighter note, she said, there was much to look forward to. She mapped out the positioning of Hong Kong vis-à-vis developments in Mainland China, urging the industry to capitalise

What is MPF?

In 1994, the World Bank published a report on "Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth", in which a three-pillar approach to protection for the elderly was put forward. The three pillars were: a publicly managed, tax-financed social safety net; a mandatory, privately managed, fully funded contribution scheme; and voluntary personal savings and insurance.

The MPF System in Hong Kong was designed to form the second pillar of this approach for retirement protection. In 1995, the Mandatory Provident Fund Schemes Ordinance (MPFSO) was enacted, supplemented by subsidiary legislation passed in 1998, 1999 and 2000. The MPF System was launched in December 2000.

on its strengths, seize all development opportunities and prepare for the challenges ahead. She identified three major areas of opportunity for Hong Kong: as a capital formation hub, as an offshore RMB location and as a wealth management centre.

In a review of Asian fund industry developments in a global context, Diana Mackay, chief executive officer, Lipper FMI pointed out that in terms of net sales by region for all asset classes and long-term funds, it was evident that when Americas and Europe were suffering negative growth, Asia remained in positive territory.

HKIFA in a nutshell

The Hong Kong Investment Fund Association has 44 full members representing the mutual funds industry in Hong Kong and 53 affiliate members, including companies that provide services to the industry. Its role is twofold: consultation and education. HKIFA works actively with related regulatory bodies and industry participants to ensure proper representation of members' views in the development of rules and regulations governing the industry.

HKIFA believes that investor education is key to promoting the concept of fund investing and engages in promotional activities to ensure ongoing education of the community on fund related issues.

The day also included three panel discussions. The first focused on the changing regulatory landscape and its impact on industry participants. Two other panels discussed Hong Kong investor education and the mandatory provident fund (MPF) system. Peter Wong, chairman of The Hong Kong Association of Banks gave his insights on the rivalry between Hong Kong and Shanghai as 'the' international financial centres of the region. Checking against a list of five criteria of competitiveness, Wong concluded that with the one-country, two-systems model, it is highly likely that Hong Kong will remain the leading international financial center of Asia Pacific. But, he added, Hong Kong must not rest on its laurels.

The planned theme of this conference was "One year after financial turmoil: the way forward for the funds industry". But as the day progressed and dialogue advanced, it was clear that the overriding concern for the months ahead would be about striking an optimum balance between investor protection and industry development.

The fundamental fact remains that the SFC has to maintain a regulatory regime that promotes market development while protecting investors' interest.

*Martin Wheatley,
chief executive,
the Securities Futures Commission*



Automation rates for funds processing rise to 69%

INTRO: The latest processing report from SWIFT and the European Fund and Asset Management Association (EFAMA) illustrates Europe's eagerness to embrace automation and standardisation for funds processing.

The report highlights key trends and figures in support of automation and standardisation using ISO 20022 message formats as well as historical comparisons to 2007 and 2008. The goal of the report is to inform the European Commission, the European Parliament and other interested stakeholders on an ongoing basis about the European fund industry's progress towards greater standardisation and automation.

The report was based on interviews with 21 Luxembourg-based transfer agents, which covers close to 80 percent of total Luxembourg order volumes – the largest cross border market in Europe. According to its findings the total automation rate of orders processed by Luxembourg transfer agents has grown by almost four percentage points to reach 69% in 2009.



Consequently, the share of manual orders fell from 34% in 2008 to 31% in 2009. Some 4.1 million orders were manually processed by survey contributors in 2009, compared to 5.4 million in 2008.

The total automation rate is significantly higher in Europe than in the Asia-Pacific region (73% compared to 46%). In both regions, however, the automation rate of orders increased by about 10 percentage points in the group of transfer agents providing a breakdown of data by region.

Meanwhile, the percentage of automated orders based on the ISO messaging standard increased to 45% in volume terms. This is an increase of 4.3 percentage points compared to 2008. In 2009, survey contributors reported 130 new ISO automated links making it the number one option for automation. This is compared to 24 new proprietary file transfer links.

The share of orders coming from Asia reached 35% in 2009. This is an increase of five percentage points compared to 2008.

"The great progress with the ISO adoption rate in 2009 reflects the strong commitment of Luxembourg fund

companies and transfer agents," said Michèle De Boe, Markets Management – Funds, SWIFT. "These organisations have taken a leadership role towards adoption of the EFAMA recommendations of ISO as a single standard for fund processing," she commented. "We are thrilled with the results since 2007 and look forward to working in close partnership with market players and EFAMA again to exceed the 50% mark by the end of 2010."

Peter De Proft, director general, EFAMA, noted that, "The reduction in the share of manual orders and ensuing rise in ISO automation rate are very encouraging developments. We hope this trend will continue in 2010, especially in the cross-border fund business with Asia which continues to rely too much on manual orders."

The next report is due out at the end of September and will include updated automation and standardisation figures covering the first half of the year.

To download a copy of the report, please visit <http://www.swift.com/solutions/funds/automation.page?>

The reduction in the share of manual orders and ensuing rise in ISO automation rate are very encouraging developments.

Peter de Proft, EFAMA