

SWIFT for Funds

– Your first choice for fund processing automation





Enabling new efficiencies in investment funds distribution

Benefits

- Reduce operational costs
- Minimise operational risk
- Improve client service levels
- Build a scalable platform for third-party distribution

Funds

Your first choice for fund processing automation

« Without SWIFT, we would certainly need to double the number of operations staff. Fluctuations in business cycles would cause problems, because we would have to pull in temporary staff. This would increase the risk and further reduce efficiency. »

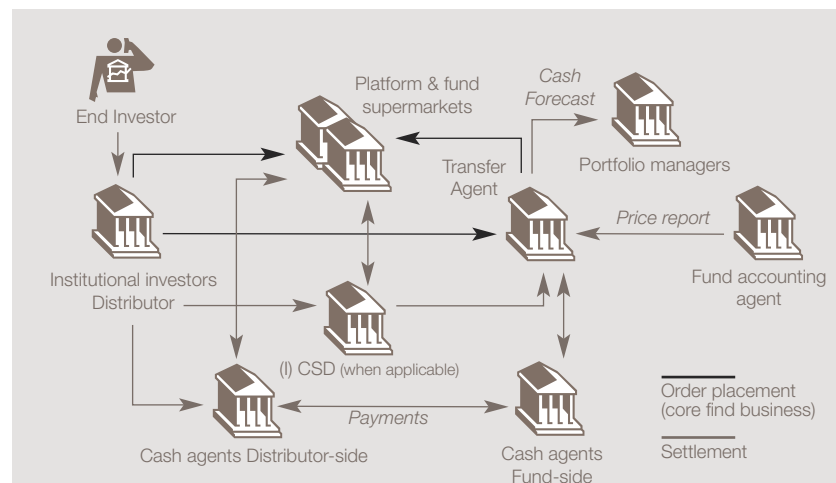
SWIFT customer

Open and guided architecture is progressively expanding in Europe and Asia-Pacific. The growth of this funds distribution model requires that the market shares a comprehensive set of open market message standards, and a scalable, highly secure and standardised platform for communication.

SWIFT's Funds solution is tailor-made to the needs of investment funds distribution players: investors and their intermediaries, distributors, distribution platforms, fund management companies and their service providers such as transfer agents/registrars, fund accounting agents, trustees, custodians and portfolio managers.

SWIFT's solution enables you to standardise and automate the following business flows: account openings and maintenance, orders, statuses or cancellations of orders and order confirmations, transfers, statements (of holdings and transactions), reporting on price, cash flow, commissions and prospectus static data.

Funds now also covers standardised order flows for the alternative funds and pension funds industries, as well as specific standards for the exchange of Fund Processing Passports (FPPs).



Ⓐ Overview of fund processing flows that can be automated via SWIFT's Funds solution

Benefits

Reduced operational costs and risks: no more faxes, no more manual errors

SWIFT's standardised, automated solutions for fund processing enable you to eliminate fax communication and the risk of errors inherent in heavily manual processes. In the current economic environment, SWIFT is key to cutting operational costs and reducing operational risks, boosting operational efficiency and improving your bottom line.

One secure, low-cost connection globally: streamlined communication with all your counterparts

When you sign up for SWIFT, you join a community of more than 1000 fund industry players worldwide already taking advantage of SWIFT's standardised solutions for funds.

If you are a transfer agent, you gain access to more than 800 fund distributors and platforms and 200 fund managers worldwide – including in Asia. SWIFT gives you one secure, low-cost channel for communication with all your distributors and hubs.

As a distributor, using SWIFT gives you one connection to this vast community of players worldwide, eliminating the need to monitor and maintain multiple file transfer protocol (FTP) channels. You can also reduce the time it takes to connect to a new transfer agent or hub to a matter of days - which means you can provide a highly flexible fund offering to your customers.

Flexibility and scalability: an infrastructure that accommodates your changing needs

SWIFT's fund solutions cover all products – mutual funds, money market funds and hedge funds, including in the corporate pensions space –and the complete processing chain, from order placement and cash settlement, to cash flow forecasts, transfers, price reports and statements. You can also re-use your SWIFT infrastructure to automate other processes, such as clearing and settlement, corporate actions, payments, treasury management and foreign exchange.

Benefits of SWIFT for transfer agents and fund providers

- One secure, low-cost global connection
- Flexibility and scalability
- Reduced operational costs and risks
- Guaranteed delivery and audit trail
- Standardised communication with distributors and concentrators
- Improved customer service
 - Better reporting
 - Reconciliation
- Cut-off management

Benefits of SWIFT for distributors

- One global connection
- Increased flexibility and scalability
- Reduced operational costs and risks
- Improved customer service:
 - Better reporting
 - Reconciliation
 - Cut-off management

As your business changes and grows, SWIFT can accommodate your evolving requirements, and the value you derive from your investment increases over time.

Automating your fund processing via SWIFT also enables you to accommodate volatile volumes smoothly, avoiding the need to scale up expensive manual resources to cope with spikes in activity.

SWIFT's pricing reflects your levels of use, providing a 'pay as you go' model.

Improved customer service

For transfer agents, SWIFT guarantees the delivery of your messages, and provides an indisputable timestamp. SWIFT also guarantees the identification of senders and receivers of messages – giving you 100 per cent certainty as to the identity of your counterparties.

With SWIFT, you can connect to new counterparties in a matter of days.

For distributors, automating order capture and reporting eliminates errors and enables information to be transported in a timely and secure manner, with guaranteed delivery. Distributors that have implemented SWIFT for order placement have been able to extend sales cut-off times in their branches as the burden of manual handling is removed. Distributors on SWIFT can provide better and timely reporting to their clients.

Training

SWIFT offers a range of classroom and onsite training and e-learning products, specifically tailored to meet your business needs – including the course "Investment funds – ISO 20022 messages". Visit www.swift.com/training for a complete list of available courses.

SWIFT in figures

- In 2008, SWIFT delivered more than 25 million fund messages
- More than 1000 fund players in 76 countries are already using SWIFT
- The average message cost per subscription/redemption is less than EURO.10
- The new ISO 20022 based SWIFT solution for funds can reduce costs further – by 40%
- SWIFT's network availability is 99.998%
- SWIFT offers 24/7 customer support

For more information on SWIFT's fund solutions, please contact your account manager, email funds@swift.com, or visit our website, www.swift.com

« SWIFT allows us to position ourselves for an increase in dealing volumes, without having to increase headcount. »

SWIFT customer



*Easy, low-cost
automation solution for
limited order volumes*

Benefits

- > One solution to reach all your counterparties
- > Achieve rapid ISO 20022-readiness
- > Easy to install and use
- > Low cost

*Additional information on
Alliance Lite is available on
swift.com/alliancelite*

Easy access to SWIFT for fund markets players

Leveraging Alliance Lite to access SWIFT's funds solutions

By taking advantage of SWIFT's internet-based connectivity option Alliance Lite you can easily and quickly access all your major fund counterparties through one connection, and start automating fund orders, statuses and confirms using the industry-accepted, widely adopted ISO 20022 standard.

This enables greater customer satisfaction, increased competitiveness, reduced operational costs and risks and enhanced service levels compared to what is possible with fax communications.

Why automate on SWIFT when operating in a limited volume environment?

The opportunities to reduce the operational risk inherent in manual order processing and to improve service levels drive the business case for automating low order volumes.

Manual intervention creates significant risk - both operational and reputational. Challenges associated with fax readability can lead to major errors. This can result in sizeable claims, all the more so in volatile markets. In addition, when you automate you can deal smoothly with volume peaks.

When you are operating in a manual processing environment, it is not possible to provide optimal service levels, and more and more RFPs require ISO 20022 fund standard support.

The operational costs of manual processing are usually underestimated.

Studies have shown that order processing costs vary from between a few Euros per order (in countries where labour costs are low) up to EUR 50 in most cases.

Alliance Lite offers an easy, low cost route to communicate in an automated way, using ISO 20022 standard messaging, with all

your fund counterparties. It efficiently addresses the shortcomings of manual processing, and enables you to comply with fund market recommendations to adopt ISO 20022.

How much does Alliance Lite cost?

Alliance Lite works with two possible pricing schemes:

- A variable cost scheme: EUR 200/month + EUR 1 per message
- A fixed 'all-inclusive' cost scheme: EUR 850/month

For this price, you can exchange up to 4,000 messages per month – corresponding to around 1,300 fund orders per month (assuming 1 order equals 3 messages: 1 order received = 1 status on pending orders and 1 order confirm).

What are the key features of Alliance Lite?

- Easy to deploy: You just need a standard PC with a standard internet connection and a USB port for the SWIFT-issued hardware security token.
- Easy to use: Alliance Lite supports manual entry and display of commonly used orders, as well as integration with business applications, using CSV files. There is no need to train users on ISO20022 standards: common language is used on the GUI input screens and reporting and file upload/download is in simple CSV pre-defined format.
- Secure and reliable: Alliance Lite meets the very stringent SWIFT security standards for financial messaging.
- Low cost: Alliance Lite is a cost effective route on to SWIFT for players with smaller volumes.



*Supporting SWIFT
customers as they
migrate to the future
of funds messaging*

If you want to know more about the fund migration and what it means for your business, please contact your SWIFT account manager or visit www.swift.com

ISO 20022 messages for funds: a full solution

One step beyond

One of the key challenges facing the fund industry is automation, especially in cross-border distribution. In 2002, the fund industry mandated SWIFT to develop a set of templates to be used for the subscription/redemption process, leveraging the MT messages used for securities transactions (MT502, MT509 and MT515). This solution – created in the ISO 15022 format – was a success and in 2007 more than 900 customers used more than 22 million fund templates.

Today – almost seven years later – it is time to move one step beyond. In close collaboration with the fund industry, SWIFT has developed a new set of ISO 20022 messages. They of course cover the transaction flow, but also transfers, statements, account management, price reports and cash forecasts. As a result the new messages, defined and validated by fund industry experts, can deal with all key processes within the value chain.

From a product point of view, the new messages not only cover the classic mutual funds but also comply with the specific needs of pension funds and alternative funds. And from a geographical point of view, the new messages offer a true answer to the global cross-border reality of today's fund distribution industry. This is also illustrated by the fact that more than 40 key market players already use the new messages for their day-to-day business.

The next step is to generalise the use of the new fund messages.

From PowerPoint to Practice

The financial industry, represented in the Board of SWIFT, has clearly indicated that the ISO 20022 fund messages should be used by all market players. From the end of 2012, the specific fund templates will no longer be available.

In order to facilitate this migration, SWIFT has set up a Funds Migration Programme, to support clients who migrate and to monitor progress made.

SWIFT's support offering will include:

- translation rules;
- a translation reference tool;
- Alliance Integrator, a SWIFT specific integration layer for connecting your business application with our messaging;
- detailed service offers from SWIFT and the community of SWIFT partners supporting the migration;
- facilitated training;
- a scheme of incentives and disincentives to encourage migration.

In a first phase, efforts are focusing on the receiving end of the value chain: transfer agents and hub platforms. The goal is to have this specific target group ready (that is, able to send and receive the new type of messages) by the end of 2009.

Please see over for details of the full timeline for the migration.



*Bi-yearly reports
to support
measurement of
progress of
fund distribution
STP*

Highlights

- As of end 2008, 66% of orders processed by Luxembourg transfer agents (TAs) are automated
- 41% of orders are already ISO-standardised
- Adoption of ISO standards has grown by 6.3% in two years
- Luxembourg TAs still processed more than 5 million manual orders in 2008
- ISO standards adoption is growing, but still low among Asian order givers

EFAMA-SWIFT survey tracks automation and standardisation in cross-border fund distribution

First report covers Luxembourg market, with Ireland report to follow in the fall

The funds industry's ability to measure the progress of automation and standardisation in cross-border fund order processing has received a significant boost as a result of a survey jointly carried out by EFAMA, the representative association of the European fund and asset management industry, and SWIFT.

A newly-published report (available to download at www.efama.org and www.swift.com) presents the first findings of this survey, focusing on fund orders received by transfer agents (TAs) in Luxembourg. A second report later this year will complement the first, focusing on automation and standardisation rates in the Irish cross-border fund marketplace.

This market analysis will be an ongoing activity, with the goal to issue a progress report once a year covering year-end data, plus a mid-year status report assessing the evolution of standardisation rates during the first six months of the year.

The purpose of this initiative is to inform all institutions involved in fund processing – as well as the European Commission, the European Parliament and other interested

stakeholders – about the industry's progress towards greater standardisation and automation. The activity fulfils the commitment made by EFAMA's Fund Processing Standardisation Group (FPSG) in its September 2008 report to monitor the industry's progress based on data gathered from the industry. SWIFT is proud to be supporting this initiative, in its unique position as a trusted third party, able to gather the necessary data from the industry while guaranteeing its legitimate use.

What is the scope of the first report?

The report covers the period from January 2007 to December 2008. It examines third-party fund distribution of Luxembourg domiciled funds, and captures levels of adoption of standards – and automation in general – for orders received by Luxembourg-based transfer agents from external order givers (third-party distributors and fund hubs). The report is based on input from 19 Luxembourg-based transfer agents to the EFAMA-SWIFT survey – covering close to 80% of total Luxembourg order volumes (based on market volume estimates from the Deloitte-Clearstream *Cross-Border Fund Distribution in Europe* study published in September 2007), and capturing data on a volume of more than 15 million orders in 2008.

What does the report reveal about levels of standardisation and automation?

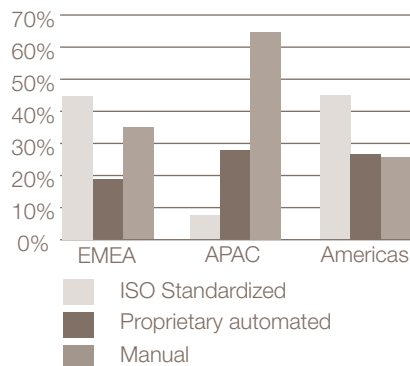
The level of ISO standardisation increased by 6.3% from Q1 2007 to Q4 2008 – reaching 41%. Taking ISO standardisation and automation using proprietary formats in combination, Luxembourg transfer agents reached a total automation level on incoming orders of 66% in Q4 2008 – representing an increase of 7.6% on the rate in Q1 2007.

The vast majority of the growth – 83% – can be attributed to increased adoption of ISO standards by funds players, in line with the recommendations of the FSPG.

In 2008, 9.7 million orders were received in an automated way, with 5.3 million orders received manually. So excellent progress has been made – but more work is needed to further improve the standardisation rate, in order to reduce operational costs and risks and improve scalability and service levels.

Has standardisation made more progress in some geographies than in others?

Yes. ISO standardisation rates are much higher among EMEA-based order givers – 47% of the 2008 total order volumes, as against just 8% in Asia-Pacific. The below chart shows the evolution of automation rates per region.



A Automation rate evolution per region

Clearly, automation and standardisation campaigns have been introduced much more recently in Asia-Pacific, but the survey results show the importance of escalating these to bring automation and standardisation rates into line with those in EMEA and the Americas.

Why is it so important to improve STP for cross-border funds?

Because the stakes are high. As Rudolf Siebel, chairman of the FPSG, states in the preface to the report on the Luxembourg market:

“The inefficiencies of fund processing are most apparent in the cross-border distribution of funds. This is a very important segment of the European fund industry, which is now offering UCITS as a global brand far beyond Europe, in particular to Asia, Latin America and the wider EMEA region.

“The report demonstrates that much has been achieved in the processing of cross-border trades, but more can be done, and the effort must continue. Only when the necessary changes are implemented by all industry players will political pressure on the industry relent, meaning regulatory action may be avoided.”

Commenting on the work that needs to be done to ensure standardisation rates continue to rise, Jean Sonnevile, head of funds solutions at SWIFT, says:

“Key success factors include implementation of EFAMA’s best practice recommendations for fund processing, the new ISO 20022-based ‘single template’ for fund orders, as well as focused ‘kill the fax’ and large-scale standardisation campaigns by fund managers, transfer agents and platforms.”

Where is the report available?

Please download a copy of the full Luxembourg report at www.efama.org or www.swift.com.

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Rudolf Siebel, FPSG

For further information about SWIFT and ISO standardisation for funds, email funds@swift.com, or visit our website, www.swift.com

EFAMA is the representative association for the European investment management industry. EFAMA represents through its 24 member associations and 44 corporate members about EUR 10.7 trillion in assets under management of which EUR 6.1 trillion managed by 54,000 investment funds at end 2008. For more information, please visit www.efama.org.



Grupo Ahorro Corporación

AC Gestión opts for SWIFT ISO 2022 to support its funds guided architecture business growth

Benefits

- ROI : 337% over 5 years
- Break-even: 6 months after launch
- Operational risk: 95% reduction in number of claims/incidents
- Operational cost: 85% order processing time reduction

Background on AC Gestión

- Spanish fund distributor
- 1,000+ savings bank network
- Top 5 Spanish fund manager
- 150 employees

Background to the fund project

- Guided architecture project launched in 2006
- 17 major cross-border fund managers
- Thousands of daily fund orders aggregated into 15-20 high value orders to transfer agents (TAs)



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 “Starting with ISO 2022 was like having a Ferrari as your first car, just after getting your driving licence: we got access to the most advanced functionalities from the start.”

Alberto Martínez Pérez, Head of Funds Operations, AC Gestión

The business challenge

AC Gestión’s success in opening up to third-party funds resulted in rocketing fund order volumes. It quickly became apparent that exchanging high volumes of orders by fax server with third-party agents was not a sustainable operational model for AC Gestión from the perspectives of operational risk, cost and service levels.

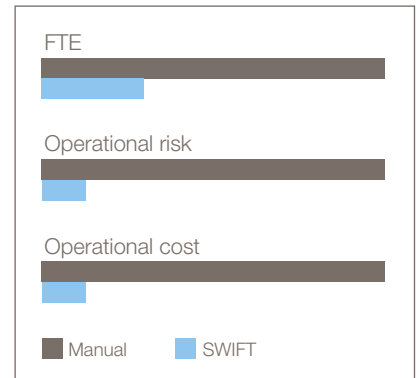
Automation and standardisation were required to enable AC Gestión’s business to grow and encompass more fund houses.

The objectives

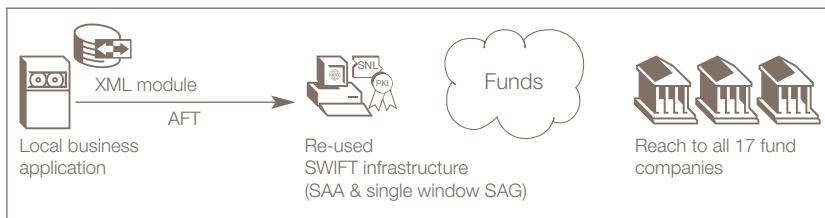
- Sustain business growth
- Reach all fund houses
- Track pending orders status prior to cut-off time
- Get guaranteed timely delivery of orders to TAs
- Minimise operational risks linked to fax
- Leverage current SWIFT infrastructure of the group

The benefits

- Business expansion: easy reach to all fund houses and transfer agents.
- Operational risk reduction: minimised errors thanks to elimination of faxes, guaranteed timely delivery of orders and receipt of status messages.
- Enhanced scalability of operations: vital when volumes are very volatile.



Ⓐ Benefits of SWIFT automation project



A SWIFT implementation

- Cost reduction: through re-use of the Ahorro Group's SWIFT infrastructure already in place for its securities and payments businesses. In addition, aggregating multiple orders per SWIFT message (which is possible with ISO 20022) leads to a substantial reduction in traffic cost, beyond what is possible using FIN fund templates.
- Enhanced service level: through a reduced error rate and an extended fund offering.
- Cut-off times: going forward, improved cut-off times for incoming orders could be offered.

The project

AC Gestión started its project to implement SWIFT's ISO 20022 Funds solution in 2006.

It was able to reuse the SWIFT infrastructure of its sister company Ahorro Corporación Financiera, meaning it could minimise IT infrastructure costs and achieve a faster time to market. Overall, it took fewer than 60 man days (nine months in elapsed time) to complete: about a third of that time was needed to accumulate the necessary XML expertise and build a module on its business application locally in order to generate the ISO 20022 messages, and to handle enquiries and reporting.

The remainder of the time was used for testing its integration with the central SWIFT infrastructure at its sister company and bringing on the first transfer agent (TA) counterparty.

The result

Since it has completed its first implementation, AC Gestión has been able to add all the required 12 TA counterparties much more easily and quickly: it now estimates that adding a counterparty on SWIFT takes an average

of three man days (two weeks elapsed time) and is fully automated on the SWIFT ISO 20022 fund service.

AC Gestión aggregates up to dozens of orders in one single SWIFT message. This is more cost effective than the "one order per MT" that applies to FIN users, meaning AC Gestión pays around 40% less in traffic fees.

Faxes are used only for repairs before cut-off, and as a contingency. This has significantly reduced operational risk.

AC Gestión sees a very powerful benefit in the automation of status messages, which confirm the content of an order is approved and will be executed. Most TAs generate status messages within minutes of order receipt, meaning they are received well before cut-off time, supporting timely identification and resolution of any problems.

Next steps

SWIFT's ISO 20022 Funds solution covers not only order flows, but all business flows for funds distribution. The next step for AC Gestión will be to automate additional operational flows using ISO 20022, starting with switches.

About SWIFT

SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect over 8,500 banking organisations, securities institutions and corporate customers in more than 200 countries. SWIFT enables its users to exchange automated, standardised financial information securely and reliably, thereby lowering costs, reducing operational risk and eliminating operational inefficiencies. During the past 10 years, SWIFT message prices have been reduced by 80%, and system availability approaches 5x9 reliability – 99.999% of uptime.

For more information please contact your SWIFT account manager or visit www.swift.com

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"Our SWIFT infrastructure supports multiple businesses in our group, and has become essential for the organisation. Once we implemented the core, adding new services has been relatively simple. We feel very comfortable with its reliability."

Pedro Soler, Organization and Systems Director, Ahorro Corporación Financiera

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Supporting global funds distribution through SWIFT connectivity

Schroder Fund Services Luxembourg

Gary Janaway, Head of Operations at Schroder Fund Services Luxembourg, talks about how adopting SWIFT has aided fund distribution

Gary Janaway led an initiative that enabled Schroders to do more business, more efficiently, in more countries, and at the same or lower cost. SWIFT played a key role in the initiative. This initiative involved connecting the funds unit of Schroder Fund Services Luxembourg to the SWIFT network, which was already in use in various parts of the business, such as the investment management arm for trading and corporate actions. The purpose was to improve distribution of Schroders (Luxembourg) funds by connecting fund distributors in an efficient, secure, standard and low cost manner. This enabled reductions in operation cost and risk, whilst extending our global distribution coverage. The primary objectives of the project are complete and Schroders has reaped a number of benefits. Nevertheless, the initiative is still evolving with plans to increase communications relating to cashflows to portfolio managers and transfers of account holdings.

The goals

Schroders' investment funds division employed SWIFT for a number of reasons:

- To standardise communication protocols with distributors located across the globe
- Rationalise the number of file transfer protocol (FTP) connections and fax templates to reduce the associated high costs of maintenance
- Utilise the same network by which to instruct payments for both funds and segregated mandates
- To extend the range of automation to include other investment funds transactions, reporting, settlement, etc
- To increase operational gearing, maintaining headcount levels that allow a higher amount of time to be allocated to servicing clients (see graph)



• **Number of funds distributed:**
Eight fund vehicles with about 125 sub-funds

• **Number of distributors:** Close to 5,000 distribution agreements but with circa 1,000 separate organisations distributing funds across the globe

• **Number of countries where funds are distributed:** 28

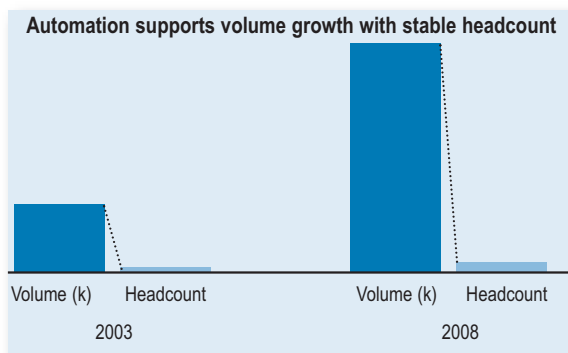
• **AUM:** Schroder Group €111.3 billion

• **Number of portfolio managers:** 335

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Adopting SWIFT has added fund distribution in Europe and Asia and helped reduce processing costs by 66%

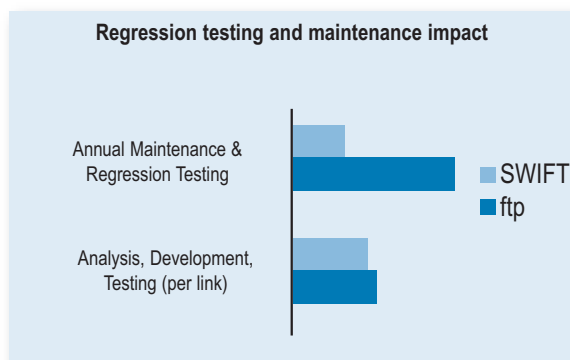
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Market evolution

Gary Janaway says: "Prior to using SWIFT we worked with distributors using proprietary communications protocols (FTP) which were rarely standardised - for example, each would require their own internal account number. Whilst we were a pioneer on STP using SWIFT, we were dependent on counterparties being ready too."

The preparation process of formatting data fields in FTP files and performing the acceptance and regression testing is a long and cumbersome task. "If these distributors make changes to their systems they would want us to make similar changes to our systems to ensure that we are synchronised. This results in a heavy maintenance program. Similarly, if we make changes to our system, we would need to perform extensive regression tests to avoid impacting the content or timing of data files we send to distributors."



Whilst connecting is an ongoing cost, regression testing and maintenance represent a significant proportion of the overall costs

Key benefits

Enhanced distribution channels

Schroder Fund Services Luxembourg chose SWIFT because most of the institutions worldwide already have access to the SWIFT network. Since 2002, the company has added circa five distributors per year, and is now adding upward of 10. This demonstrates that standards are converging.

Gary Janaway says: "A benefit for us is the access for our distribution division to distributors. Most of our European and Asian distribution is through banks, most of whom already use SWIFT in other parts of their organisations."

Enhanced client service and reduced processing time

"The use of technology to automate order management has directly reduced processing time. This enables any problem orders received from clients to be identified and corrective action to be taken. This directly reduces market risk and the cost of repair – be it for Schroders or our clients."

Gary Janaway says: "By contrast we used to receive a high level of faxed-based orders, the manual checking involved took longer, was less reliable and often could not be corrected for value on the day of receipt. This demonstrates the relationship between automation and high quality customer service."

Orders received via SWIFT require no manual intervention and pass initial processing in a matter of seconds. In contrast, manually processed orders require an average of four minutes

There are still proprietary messaging methods that we use to communicate with some distributors, and these will be removed over time and replaced with SWIFT connectivity when the opportunity arises

of checking and typically would involve a team of people for several hours. This causes delays in identifying and correcting incomplete orders.

The deployment of SWIFT messaging in the fund services division allows more timely information to be provided to the fund managers in respect of cash moving into and out of the funds, assisting them in making short term investment decisions.

Network management

Automating orders via SWIFT also allows distributors to decide how to manage their networks, either centralising orders through one central desk, or operating from multiple sites.

"Our 20 largest order generators account for circa 80% of our order traffic," says Gary Janaway. "Some groups consolidate their orders, sending fewer in number but for a greater value. Each method offers different benefits to distributors and with SWIFT's low messaging tariff, the overall cost differential for either model is negligible. The cost of a SWIFT message can be as low as a couple of euro cents."

Security & reliability

"We were looking for security. If you have a very reliable network, which is what SWIFT offers, you can send messages containing instructions and information 24 hours a day, seven days a week," says Gary Janaway.

The future

Schroder Fund Services Luxembourg's use of SWIFT is still evolving as part of its strategic program to automate processes and reduce costs.

Schroder Fund Services Luxembourg is now looking at using transfer messages with the single leg and extending the use of SWIFT by adopting foreign exchange messaging to their business and operational process.

Orders received via SWIFT require no manual intervention and pass initial processing in a matter of seconds. In contrast, manually processed orders require an average of four minutes of checking

Driving automation in the processing of cross-border investment funds



Bob Currie reports on the progress of initiatives to drive electronic and standardised investment fund processing

SWIFT, in collaboration with EFAMA, has conducted a census of 19 Luxembourg transfer agents, representing a mix of third-party and in-house TA activity, in order to monitor levels of automation across their fund processing activities. Published in late May 2009, the report captures near to 80 per cent of total Luxembourg order volumes (EFAMA-SWIFT, *Fund Processing Standardization: Tracking Industry Progress*, May 2009). The survey revealed a 66 per cent automation rate across the TA sample, based on Q4 2008 data, an improvement of roughly eight per cent on the 58 per cent automation rate recorded when the survey was introduced in Q1 2007 (Fig 1). Importantly, much of this advance in automation rates since Q1 2007 has been achieved through the extension of ISO standard communication: 41 per cent of orders processed by this TA community were

managed through ISO automated channels (a 6.3 per cent rise on Q1 2007), compared with 25 per cent processed through automated proprietary formats.

"These survey data confirm significant advances in levels of automation across the sample of 19 TAs since the survey was launched in January 2007," says Michèle De Boe, Regional Head, Fund Markets at SWIFT. "However, we recognise that more than 5 million fund orders, out of a total 15 million orders captured by this TA sample during 2008, were still processed manually." To address this constraint, SWIFT will continue to work directly with major fund managers and transfer agents, distributors and platforms, as well as with EFAMA and other key industry bodies, in order to drive automation



Michèle De Boe,
Regional Head, Fund Markets,
SWIFT

through ISO standard fund messaging. SWIFT and EFAMA plan a further survey in September 2009 to evaluate STP rates in the Irish cross-border funds market. Subsequently, they will report on automation rates in these two main cross-border fund distribution centres twice a year.

Thomas Bruno, Head of Transfer Agency, IFDS Luxembourg, confirms that these results are broadly reflective of what IFDS has experienced through its Luxembourg- and Ireland-based TA operations. "At IFDS, we believe that we lie slightly ahead of the market in promoting automation and these advances are largely the result of the development work that we have done with our fund promoter customers and their distributor counterparties," he explains. "The primary obstacle for the market is typically not that we lack the appropriate tools to drive end-to-end processing of fund transactions – rather it is in getting a diverse community of fund promoters and distributors across multiple markets to uphold the standards that the industry has set in place, to apply appropriate technology and to rationalise their cost structures."

Jean Sonnevile, Head of Funds Solutions at SWIFT, believes that the rate of growth in ISO adoption for the industry over the past two years, at 6.3 per cent, has been highly encouraging. An ongoing priority is to increase the pace of adoption and to reach the levels of standardisation that have been attained for other securities. EFAMA's Fund Processing Standardisation Group has issued recommendations to guide industry best practice, serving as a leading advocate of ISO 20022 as single European standard for fund messaging and as the basis for electronic communication in processing investment funds. EFAMA has proposed that ISO 20022 should be advanced as promptly as possible as a basis for interoperability and that proprietary message standards between client side and fund side institutions should be avoided.

In line with this objective, SWIFT has announced a set of milestones to guide migration to ISO 20022 fund messaging over the SWIFT network, culminating in full adoption by late 2012 (see p 44). To encourage a prompt and efficient transition from manual processing to ISO standard automation, leading transfer agents have joined SWIFT's 'Kill the Fax/Proprietary formats' initiatives that were launched in Q1 2009. Jean Sonnevile notes that the advances achieved through these programmes have already exceeded expectations. "Although many fund promoters, distribution platforms and TAs have been supportive of efforts to remove fax communication, it seemed likely that proprietary FTP would take much longer to eliminate," he says. "In practice, there are preliminary signs that this could advance more swiftly than anticipated: a number of companies have plans to also remove proprietary files in favour of ISO-compliant fund messages across their fund trading and post-trade activities."

This has been supplemented, inter alia, by important work done by the Findel group in Luxembourg and by the Asia Fund Automation Consortium (AFAC) in the Asia Pacific region. Approximately 30 per cent of total order volumes processed by Luxembourg-based TAs are originated via Asia-based distributors – and the May 2009 SWIFT-EFAMA survey reveals that approximately 65 per cent of this order flow continues to be processed manually (Fig 2).

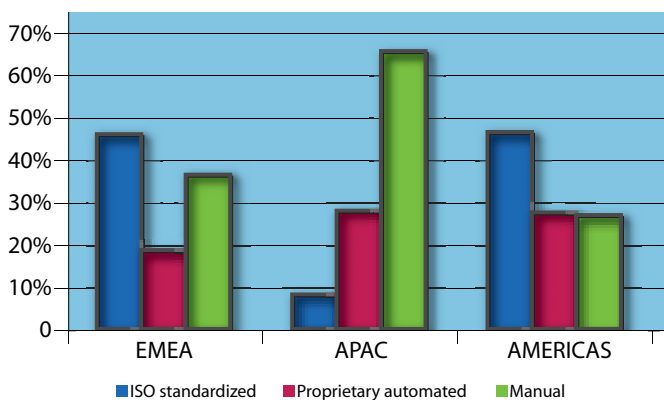
Indeed, the Asia-Pacific region represents an area of opportunity for fund promoters wishing to extend global distribution of their flagship fund products. However, this region also stands out in having relatively low rates of automation. "If I were

Fig 1: Total automation rates for Investment Funds Orders, Q1 2007 and Q4 2008

	Q1 2007	Q4 2008	Progress
ISO standardization rate	34.9%	41.1%	+6.3%
Total automation rate	58.3%	65.9%	+7.6%
Manual rate	41.7%	34.1%	-7.6%

Source: EFAMA-SWIFT

Fig 2: Investment Fund Order Processing by Region: ISO standardised, Proprietary automated and Manual



Source: EFAMA-SWIFT

to prioritise one initiative that would push cross-border STP rates up dramatically, it would be the educational work that we are doing with Asian distributors, particularly with new distributors that are coming on board for the first time with our fund promoter clients," says IFDS' Bruno. At IFDS, the aim is to get these new distributors up and running in an automated environment as early as possible. If a distributor begins to communicate with its counterparts in a manual or quasi-manual format, then it can be hard to break out of this physical environment – particularly when there is a 6-8 hour time difference with the fund promoter and TA.

IFDS is now making steady progress in bringing new distributors on board directly via an electronic interface. To support this, IFDS encourages smaller distributors to employ simple, low cost interfaces such as SWIFTAlliance Lite – enabling them to

extend their distribution reach into new markets – and the need to promote end-to-end automation from order placement through to settlement and asset servicing is fundamental to supporting this global expansion. Gary Janaway, Operations Director at Schroder Fund Services Luxembourg, explains that Schroder Investment Management is constantly extending distribution of its fund products into new locations. "By eliminating manual communication, this will free up specialist staff to concentrate on what is truly important, notably delivering service enhancements and providing high quality services where we interact with our clients," he says. In this context, efforts to drive process automation in the region remain a priority. The UCITS environment is still relatively young in the Asia Pacific region, but there has been strong investment flow into UCITS products and rapid expansion of distribution relationships. As processing



Philippe Seyll,
Director of Investment Fund Services, Clearstream

For the distributor, there has been inadequate incentive to transmit order instructions electronically. The high cost of subscribing and redeeming funds through non-automated channels is often borne by the fund promoter – and, ultimately, this cost will be passed through to the end investor. Few distributors are giving due consideration to the operational risks and costs involved in processing fund orders cross-border through non-automated channels.

connect to the SWIFT network without sizeable investment in internal SWIFT interfaces – and order aggregation platforms such as Clearstream's Vestima+ and Euroclear's FundSettle. "When we take on a new fund promoter client and we begin to work with their distributor counterparties, this is typically the right time to initiate the discussion around process automation" explains Bruno. "An important step in enabling IFDS to establish high STP rates with its large fund promoter clients is that it has been able to spend time with its major distributors in Asia, mapping out project plans and rolling out necessary technology and process improvements. Having established this momentum in Hong Kong, Singapore and Taiwan, the largest cross-border fund markets in Asia, IFDS is confident that it will now be able to extend this to India, Malaysia and other Asian rim countries as they increase the level of assets that domestic investors can hold overseas.

Supporting global distribution

Global asset management houses are driving hard to

volumes rise, the need for STP communication between distributor, TA and fund promoter becomes particularly important. "We are working to ensure that we have scalable procedures in place internally that can accommodate this rise in transaction volumes," says Janaway. "As we move ahead with the ISO 20022 migration, we are likely to boost the volume of message traffic that we communicate via the SWIFT network. This will become more straightforward as a larger percentage of our distribution partners become SWIFT enabled."

Fig 3: Automation Rates for Investment Funds Orders by Region, ISO Standard and Proprietary Formats

	ISO Standardization rate			Full automation rate (ISO + proprietary formats)		
	EMEA	APAC	Americas	EMEA	APAC	Americas
Q1 2007	41.0%	5.7%	48.9%	58.8%	32.6%	79.1%
Q4 2007	46.8%	5.8%	45.3%	66.4%	31.0%	75.8%
Q4 2008	47.3%	7.7%	47.2%	64.5%	36.2%	72.9%

Source: EFAMA-SWIFT

Building a Single Template for ISO 20022-based Fund Messaging

In reflecting on the conclusions of the EFAMA-SWIFT survey, Jean Sonnevile, Head of Fund Services at SWIFT, indicates that it is encouraging that automation through ISO standard messaging is now advancing substantially faster than automation through proprietary FTP or other non-standard channels. In Luxembourg, the Findel group has been working with SWIFT to guide how SWIFT's ISO 20022 message suite should be utilised for fund order, status and confirmation messages to ensure maximum consistency across the user community. To minimise implementation and maintenance costs, SWIFT has agreed that there will be no revision to this single standard until at least 2013 unless new regulatory requirements would mandate a standard maintenance.

Gary Janaway, Operations Director at Schroder Fund Services Luxembourg, explains that the template for order processing and confirmation was finalised in Q4 2008. However, several weeks have been spent subsequently in branding and publicising this initiative prior to making the harmonised templates fully available for firms to adopt. Several leading Luxembourg-based TAs are currently implementing the templates, supporting consistent field usage for the SWIFT ISO 20022 fund message suite to complement that already established for their SWIFT FIN messaging. Findel has also received inquiries from industry groups in other countries that are keen to benefit from the work done to standardise 20022 message use in the Luxembourg market. Guidelines to this effect have been published on the SWIFT Website.

In developing these harmonised templates, Janaway suggests that the most important step was to build consensus across the major users that were already live with the ISO 20022 fund messages. A number of these early movers are active participants in the Findel Group – and, relatively quickly, it was possible to build critical mass with six large asset managers and a number of sizeable third-party administrators using the templates. “For firms that were employing non-standard usage – opting to use a different variation of a particular field or to communicate an account number in a non-standard format – we explained that they would benefit from moving to the norm, bringing them into line with their major trading counterparties,” he says. “And most of the group have elected to do so. In cases where it was unclear how inconsistencies should be resolved, we have chosen to allow discretion in the relevant fields and to revisit these during the next SWIFT maintenance window.”

In driving this exercise, the harmonised templates make use of roughly 15-20 per cent of the total data fields that are available in the ISO 20022 standard fund message. By doing so, they

establish a framework that encourages consistent usage across the funds industry, but inevitably these do not embrace every contingency or scenario. In some cases there are dedicated fields that counterparties can employ bilaterally, but the Findel Group advises against adding unnecessary complexity whenever possible. “Typically 20 per cent of the data fields will cover 90 per cent of circumstances,” says Janaway.

In completing this agenda, the Findel Group is finalising work with the major clearing and settlement depositories for investment funds to ensure standard communication around order routing via the CSD platforms. It is also working closely with AFAC in the Asia Pacific to ensure that the harmonised template embraces the needs of local distributors in the region – for example, capturing any front end charges that may be attached to fund transactions. “Ultimately, if we can support key transaction details relating to fund purchases, sales and transfers, and we plan to add unique identifier information relating to beneficial ownership of fund units, then we believe that the ISO 20022 message templates will accommodate much of the data required to support commission and retrocession calculations in an open architecture distribution environment,” Janaway concludes.

The work of the Findel Group in promoting a harmonised template for ISO 20022 fund messaging is key to promoting efficient use of this message standard across the industry, notes Thomas Bruno, Head of Transfer Agency at IFDS Luxembourg. It has long been recognised that the simple existence of an ISO standard does not ensure that it will be utilised by industry participants in a consistent way. The ISO 20022 fund message supports a field structure that extends considerable flexibility to the user – but it is important that this is not achieved at the cost of accuracy. However, previous experience in implementing the ISO 15022 standard has provided valuable lessons regarding how the industry can utilise powerful functions offered by the new standard, while still ensuring common use of key fields.

SWIFT have been supportive in providing specialist advice on how best to structure ISO 20022 messaging communicated over the SWIFT network. They have also been flexible in putting maintenance on hold while this transition to the ISO 20022 standard takes place. “Within Findel Group, we recognise that member firms have committed sizeable investments to driving end-to-end automation across the Luxembourg funds industry,” comments Janaway. “However, in the current economic climate, we do not believe that it is a time to be spending heavily on major transition projects if this can be avoided.”

