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STANDARDIZATON OF FUNDS PROCESSING IN EUROPE

ORDER AND SETTLEMENT
TRANSFERS
HOLDING AND TRANSACTION REPORTING
COMMISSION REPORTING
CORPORATE ACTIONS AND OTHER NOTIFICATIONS

An updated report from EFAMA's
Fund Processing Standardization Group

efama
European Fund and Asset Management Association

CONTENTS

1. PREFACE

In its resolution of 13 December 2007 on Asset Management II, which was prepared by MEP Wolf Klinz, the European Parliament welcomed the establishment by EFAMA of the Fund Processing Standardization Group (FPSG) and other initiatives to improve the efficiency of fund processing[1].

Indeed, the industry has made good progress since the publication of the FPSG's initial recommendations in 2005, with both market participants and infrastructure providers continuing to invest in ISO 20022 as the key messaging standard for funds processing. With regard to infrastructure in particular, a variety of connectivity options now exists, with SWIFT[2] now offering a product for small and medium-sized players alongside other ISO 20022-enabled industry message hub solutions. The Fund Processing Passport initiative is now supported by a number of "national" FPP repositories, which can be accessed individually as well as collectively via the EFAMA FPP Portal[3], which was launched in June 2010.

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 offers UCITS as a global brand far beyond Europe in particular to Asia and Latin America and the wider EMEA region. The importance of open/guided architecture also exacerbates the ensuing operational costs for industry players and investors. Given this, the importance of a global approach to fund processing remains as high as ever.

EFAMA remains a catalyst for change

Bearing in mind the significant potential cost savings that could be achieved in the processing of fund orders, EFAMA established the FPSG in 2003 to identify obstacles to efficiency in back-office procedures and to outline possible actions for removing them.

The FPSG comprises expert practitioners from a broad range of European countries, as well as infrastructure and standards providers and representatives from a growing number of national associations and ISSA.

Having published the initial recommendations of the FPSG in 2005, covering the order and settlement process, EFAMA updated and added to the report in September 2008. It is now extending the report once again, with new sections covering transfers of title and corporate actions, to encompass the full scope of its initial goals.

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[1] The European Parliament resolution is available at:
http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2007-0627+0+DOC+XML+V0//EN&language=EN.
The paragraphs relevant for fund processing are paragraphs 30 to 33.

[2] As well as performing the function of Registration Authority for ISO 20022 - maintaining the message catalogue and data dictionary and overseeing the technical compliance of items in the repository with the ISO 20022 standard, on behalf of ISO - SWIFT is separately a financial industry co-operative, which provides a network over which ISO 20022 messages can be transmitted.

[3] The EFAMA FPP Portal can be accessed at:
http://www.efama.org/index.php?option=com_wrapper&Itemid=67

As noted above, much has been achieved already, but more can be done and the effort must continue. Only when the necessary changes are implemented by all industry players will the benefits truly be delivered to the market as a whole. The key motivations for the industry are:

- greater efficiency - improved scalability of operations and reduced costs, resulting in greater profitability for the players involved with lower costs to investors;
- reduced operational risk - through the elimination and replacement of manual re-keying of orders and other data by straight-through processing;
- enhanced service - through improved response times and standardized interfaces.

There is a need to monitor implementation

EFAMA, in association with SWIFT, is now regularly publishing data obtained from the Irish and Luxembourg markets to illustrate the growth in automation of fund order processing and the adoption of ISO standards in that space[4]. Output from this initiative enables EFAMA to demonstrate the progress to the European Commission, the European Parliament and others, and the success that can be achieved without regulatory intervention.

[4] The reports are available for download at: http://www.efama.org/index.php?option=com_docman&task=cat_view&gid=88&Itemid=-99

2. EXECUTIVE SUMMARY

This paper is the second update to the report that was first published by EFAMA in 2005 to present recommendations to increase efficiency in the processing of fund orders and achieve cost savings. In that paper, we indicated that the FPSG would proceed to look at other areas of fund processing, and it was duly updated in September 2008, in which new sections were added covering reporting of positions and transactions and commission reporting. This latest version, which includes further new sections on transfers of title and corporate actions, now encompasses the full scope of activities that were envisaged when the FPSG was formed.

In Section 3, we offer a number of general and overarching recommendations to facilitate and improve the level of automation and straight through processing (STP) within the European funds industry. These include the adoption of the Fund Processing Passport (FPP) as an industry standard, the use of ISO standard identifiers, such as BICs and ISINs, and the promotion of ISO 20022 as the single European message standard for fund messaging.

Section 4 considers the order and settlement process and includes recommendations concerning account identification and standing data as well as for automation of the order, acknowledgement and subsequent confirmation processes. The recommendations concerning settlement include a specific proposal to harmonize settlement date on T+3 or earlier, according to the nature of a fund's underlying assets.

Section 5 is a new section and proposes measures applicable to the single- and double-leg processing models that exist for transfers of title in different markets due to local rules and conventions. The principle aims are to shorten processing timelines and improve communication between the actors involved.

Section 6 makes recommendations to increase the harmonization of basic reporting services provided by fund administrators to distributors and institutional holders. The focus is on the frequency and timeliness of position and valuation reporting and transaction statements.

Section 7 seeks to address various issues in the area of commission reporting. In particular, the actor that calculates and pays commission, needs to be provided with the information necessary to make the payment and advise the distributor accordingly in a timely fashion. The recommendations draw on initiatives that are underway already in some markets.

Section 8 is a new section and discusses various aspects in relation to corporate actions, with a view principally to improving communication with the wider market in order that underlying beneficial owners and their servicing agents are able to receive and process the information in a more timely fashion. This section covers income entitlements and those arising from fund reorganizations, as well as communications relating to unitholder meetings and other investor notifications.

Section 9 discusses how EFAMA is working with other organizations to promote the implementation of the FPSG's recommendations.

Section 10 provides reaction of key industry stakeholders to the draft final version of the report.

The definitions of some of the key terms used in this report may be found in the Glossary.

3. GENERAL RECOMMENDATIONS

3.1 Facilitating straight through processing

3.1.1 Client-side institutions performing the order placement role should encourage the electronic input of orders and other instructions as early as possible in the instruction chain so as to minimize or, preferably, eliminate the re-keying of data.

3.1.2 Fund management companies should arrange for Fund Processing Passports to be made available for their funds, in order to facilitate their trading[5].

3.1.3 Where legal or regulatory barriers or constraints to the implementation of these recommendations exist, national associations should aim to work with the relevant government or regulator to remove or alleviate them.

3.2 ISO standard identifiers

3.2.1 Where possible, financial institutions, including fund administrators, distributors etc., should be identified using their BIC code (ISO 9362).

3.2.2 Fund providers should use ISIN (ISO 6166) codes for all their funds at the lowest (ie. unit/share class) level and should promote its use as the sole identifier for that instrument.

3.2.3 Wherever possible all other items, eg. countries, currencies, etc., should be identified using the relevant ISO standards.

3.3 Messaging standards

3.3.1 Communications between client-side and fund-side institutions, including the giving of instructions and provision of reports, should as far as possible be electronic.

3.3.2 ISO 20022 is recognized as the single European standard for funds messaging going forward and should be the basis for electronic communications in this area.

3.3.3 Messages should be used for the purposes for which they were designed and in accordance with any market practice that may be published by the Securities Market Practice Group or its constituent National Market Practice Groups[6].

3.3.4 Proprietary message standards between client-side institutions and fund-side institutions should be avoided.

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[5] A brochure presenting version 1 of the FPP was published in June 2007: See http://www.efama.org/50Standards/Standards_documents/EFAMA_Documents/fppbrochure). Drawing lessons from a wide consultation with industry participants, Version 3 of the FPP was published in April 2010 (see http://www.efama.org/index.php?option=com_docman&task=cat_view&gid=88&Itemid=-99).

[6] For more information see www.smpg.info.

4. ORDER AND SETTLEMENT

4.1 The generic processing model

The FPSG considers that order processing messages and standards across Europe can be viewed in the context of a *generic* model of the roles and actors involved (see Figure 4.1 below). Note that funds which are traded on exchange and settled in the same way as equities (eg. in the Danish market, as well as exchange-traded funds that exist elsewhere) are not within the scope of this paper.

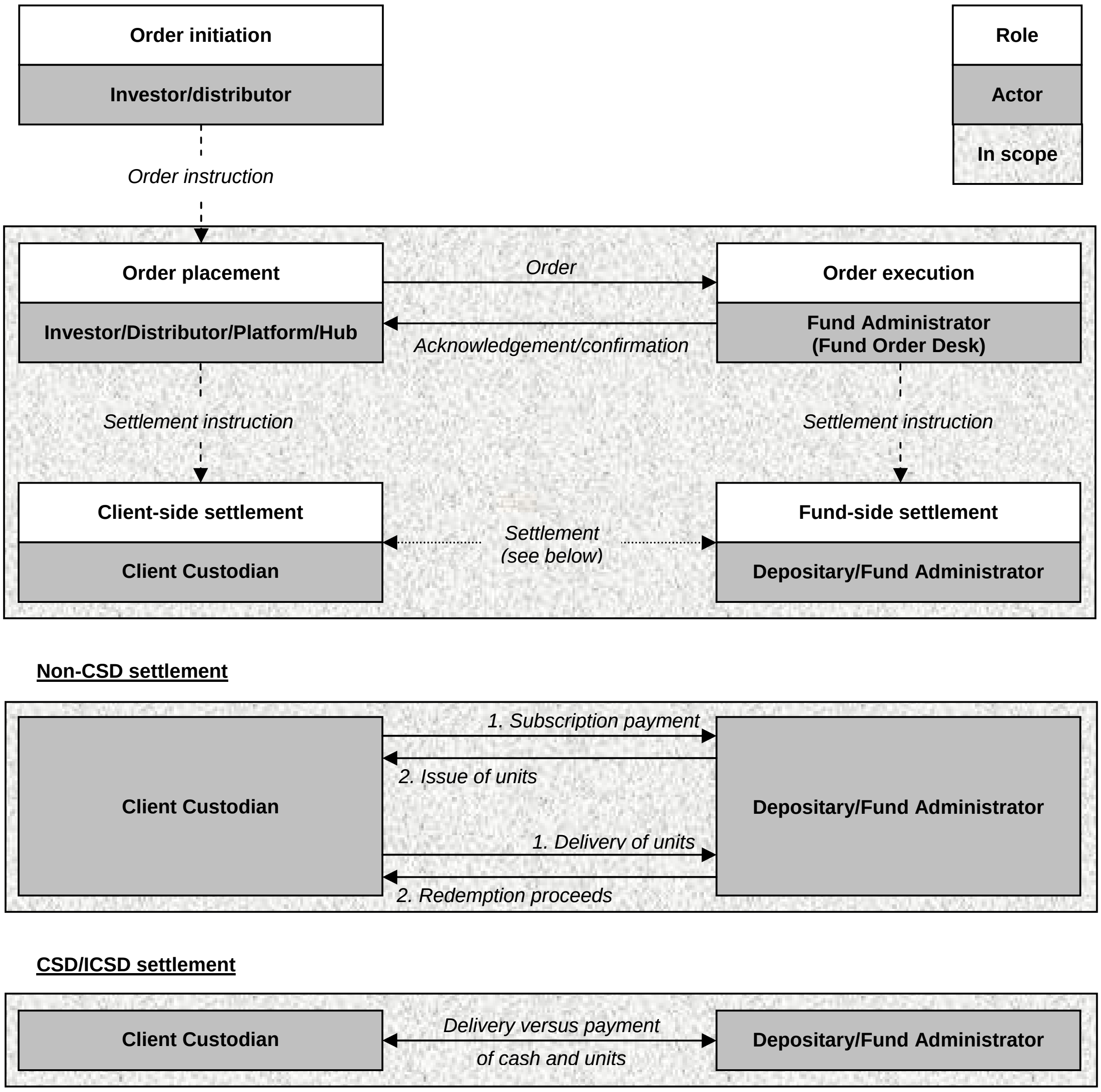


Figure 4.1

From the above, it can be seen that there are five discrete roles in the overall order and settlement process:

- *Order initiation* - initiation of the order by the end investor and communication through to the placement stage, directly or through one or more intermediaries.

- *Order placement* - communication of the order to the fund-side institution by the dealing function of the client-side institution and subsequent issue of the client-side settlement instructions.

- *Order execution* - receipt, acceptance and processing of the order by the fund-side institution as agent for the fund or (in the UK) as principal.

- *Client-side settlement* - arranging for payment to be made for units purchased or for title to be given up to units sold.

- *Fund-side settlement* - making or arranging the settlement of transactions on behalf of the fund or fund provider.

Note that a single actor may perform more than one role in the process.

The model has been reviewed against the operating practices in a broad range of European fund domiciles. Which actor executes orders on the fund side will vary - in many jurisdictions it will be the fund administrator, while in others it may be the depositary (eg. Germany) or a centralizing agent (France); in the UK the fund management company usually deals as principal on its own account and arranges for the issue and cancellation of units between itself and the fund. In most markets the final order placement will be undertaken by various types of institution (note that the principal focus of the FPSG is on communications between fund administrators and financial institutions - interactions that may take place with private investors are not considered in this section).

In markets such as France and Germany, settlement occurs in the local CSD. Settlement can also take place in an ICSD. Otherwise, however, settlement occurs typically on the basis of payment or delivery by the client-side custodian, on receipt of which the fund-side institution will complete the process.

The order initiation and placement roles may be performed by the same actor or they may be separate entities that either communicate directly or through one or more intermediaries. Where multiple entities are involved they might, for various reasons over which the fund-side institution may or may not have any influence, choose to use proprietary interfaces. Given this, the FPSG's remit insofar as order processing is concerned is confined to the placement and settlement stages of the process (shaded). Nevertheless, all parties involved in the input and placement roles should be encouraged to ensure that orders are input electronically as soon as possible in the order chain, using the standards proposed.

4.2 Account opening and maintenance

Issues

Where client accounts are maintained by the fund-side institution, identification of the correct holder and holding, whether existing or new, is vital to the correct processing of an order.

No market standard exists for the determination and allocation of completely unique holder references - both the client-side institution and the fund-side institution will have their own code.

There will be situations where the client-side institution does not know the relevant account reference, or where no holding exists at that stage. In such circumstances the intended account will be identified by reference to its registration details. The lack of a standard information set and format for these details can result in the creation of duplicate and incorrectly registered accounts, which in turn can lead to confusion and dealing errors in the future.

Recommendations

4.2.1 Where the transaction relates to an existing holding, the account (where relevant) should be identified by way of the fund-side institution's reference. Otherwise a standard set of registration details should be provided (see 4.2.3 below).

4.2.2 Transfer agency systems and fund registers should be able to accept and store account numbers or distributor references (where applicable) provided by client-side institutions, in order to allow proper identification of the holding. Uniqueness may be ensured by reference to the BIC code of the distributor associated with the account. In the longer term, an IBAN-type approach (with codes being issued by the client-side institution) should be considered for the purposes of establishing a unique account holder reference.

4.2.3 The industry should adopt a standard minimum set of account standing data[7], to be provided in relation to a new or existing holding for which the client-side institution does not have the holder reference.

4.3 Order placement

Issues

Orders are currently placed with the fund order desk by a variety of means, including post, telephone, fax, e-mail and proprietary electronic messaging.

With most of these methods, manual intervention and re-keying is required. As well as being resource intensive, variation in the content of instructions increases the risk of error and has a negative impact on the service levels provided to market counterparties and, ultimately to end investors. Errors occur due to the misquoting or misinterpretation of client details, fund

[7] To be determined by the SMPG (see section 10 below) in its analysis of the ISO20022 account management messages.

names and other transaction details, which are entered or provided manually, perhaps from abbreviated source information. The problem is made worse by the need for investors and their agents to communicate with different fund providers using a variety of communication methods. Note that the use of electronic communication and common messaging standards are recommended in section 3.3 above.

The institutions concerned will each allocate their own transaction reference to an order. However, this will usually mean nothing to the other party and so confusion can arise as to which order is being processed, particularly when multiple orders have similar details. As a result, confirmations may be mismatched against the original order and settlements can be wrongly applied.

A further problem area is the variability in valuation points and the associated dealing cut-off times between different funds. This both makes asset reallocation between funds difficult to co-ordinate and causes confusion for client-side institutions, which will need to meet different dealing deadlines depending upon the fund concerned. However, it is suggested that standardizing valuation points and cut-off times would create as many problems as it might solve - they are often set in order to avoid a concentration of activity at one point in the day and in some cases are determined due to the trading hours of the markets in which funds invest. However, client-side institutions should have easy access to information regarding cut-off points, which it is recommended should be included within the Fund Processing Passport (see recommendation 3.1.2).

<u>Recommendation</u>

4.3.1 Order instructions should include the client-side institution's unique order reference. The fund order desk will, in turn, provide its own deal reference as part of its acknowledgement. All future messages regarding that order should contain both references in order that it may be correctly recognized by both parties.

4.4 Acknowledgement and confirmation

<u>Issues</u>

The majority of funds deal on a "forward" basis - the price of units is calculated at the next valuation point after the fund-side institution accepts the order.

This means that confirmation of an order (including the unit price etc.) will not usually be possible until some time after it is placed. Some, but not all, fund-side institutions undertake to acknowledge orders prior to the relevant valuation point, thus providing an opportunity to confirm that they have been received and correctly understood before the prices are allocated. However, these acknowledgements are often in a form that is proprietary to one party or the other and may not easily facilitate automatic matching by the client-side institution with the original order. In addition, acknowledgement currently may or may not represent acceptance of the order for execution.

Most fund administration systems generate confirmations at the end of the day on which the prices are calculated and allocated, for dispatch the following day. This means that the client-side institution will not receive formal confirmation of the transaction until that following day, or later if it is sent by post. Delays in receiving the confirmation may well delay the settlement process, incurring cost to one or other party.

Recommendations

4.4.1 Orders should be validated and acknowledged (which would indicate acceptance for execution) or rejected by the fund order desk as soon as possible after they are received (ideally within minutes).

4.4.2 Except where complete fulfillment of an order is conditional, under the terms of the fund, upon other orders transacted within the same dealing period, cancellation or amendment of the order should be permitted only by prior agreement between the client-side and fund-side institutions. Only orders that have been executed incorrectly by the fund order desk should be cancelled or amended after the dealing cut-off point, with the fund being compensated as appropriate for any adverse impact that may occur as a result.

4.4.3 Confirmations should be sent by the fund order desk as soon as possible after the prices have been allocated to the orders, and at the latest overnight following the close of that day.

4.4.4 Where a foreign exchange transaction is executed in connection with the transaction, details should be included within the confirmation message.

4.4.5 Client-side institutions should have mechanisms in place to identify discrepancies in the acknowledgements they receive as well as any unmatched orders or confirmations, which should be referred to the relevant fund order desk on the business day of receipt.

4.5 Settlement

Issues

The key issues with settlement are that various settlement mechanisms are used (cheque, electronic funds transfer, CSD/ICSD accounting) and that settlement timeframes can vary.

Uncertainty as to the settlement date is frustrating for both institutional investors and distributors and can have a consequent effect on their ability to settle subsequent purchases on time. There is pressure, given the context of funds within the wider European securities markets, for settlement to be harmonized around T+3.

Recommendations

4.5.1 Settlement should occur on a date that is predetermined by reference to the date of the transaction.

4.5.2 Settlement should occur on T+3 (where "T" is the date on which an order is priced) or earlier[8], according to the settlement cycles of a fund's underlying assets. In

[8] Money market and cash funds, for example.

exceptional cases, the nature of a fund's assets and the associated settlement timeframes may require a longer period.

4.5.3 Settlement for both subscriptions and redemptions should be made electronically between client-side and fund-side institutions or effected via a CSD/ICSD.

4.5.4 Payments should be accompanied by the relevant order reference(s) in order to facilitate reconciliation by the recipient.

5. TRANSFERS (new section)

5.1 Generic processing models and recommendations

This section considers the transfer of units between two accounts recorded in the legal register of fund holders, other than where it is maintained by way of book entry within the system of a CSD or ICSD. Transfers involves two parties: the Delivering Party delivering the units (transferor) and the Receiving Party receiving the units (transferee).

Although legislation and market conventions vary between different countries, the FPSG considers that transfer processing across Europe (outside a CSD environment) can be viewed in the context of three *generic* models:

- Single leg, transferor instructing
- Single leg, transferee instructing
- Double-leg

These models are described in more detail in sections 5.2 to 5.4 below.

Note: the models described within this paper are not intended to address the processes that occur with CSDs or ICSDs. However, these infrastructures may themselves be actors in these models for the purposes of moving units into and out of the (I)CSD environment.

<u>Issues</u>

Transfers are generally instructed using physical documents or faxes. As such, they require manual intervention, which makes them resource intensive and exposes them to the risk of human error. Moreover, their processing is usually not time-critical, so they often are not processed with the same urgency as subscriptions and redemptions, leading to delays that can have a knock-on impact on a custodian's ability to service their client effectively.

The single-leg models often operate with only the transaction reference of the instructing party, which makes it difficult for the counterparty to reconcile the transaction on the register against their own records. In particular, where it is the transferor that sends the instruction, the receiving party sometimes does not realize they have received the units until they next reconcile to the fund register.

In countries that operate the double-leg model, difficulties can be encountered by the Transfer Agent (TA) in matching the two parties instructions and, indeed, processing is often delayed by non-receipt of the second instruction.

<u>Recommendations</u>

Fundamental to the recommendations contained in this paper is that communications and processing should be electronic wherever possible. This benefits both fund-side institutions such as TAs as well as distributors. With transfers in particular, electronic processing means that timeframes can be shortened and portfolios can be moved between custodians more cleanly. This enables management and trading of the client's portfolio to recommence more quickly and reduces the administrative/reconciliation burden for the outgoing servicer in relation to business that has been lost.

In some jurisdictions physical transfer documentation may be required as a matter of market convention, while in others it is a legal requirement. General recommendation 3.1.3 is that national associations should work with their respective governments and regulators to remove legal and regulatory barriers to the implementation of the recommendation in this paper. In addition, they should encourage market participants to migrate from legacy manual practices where these are not mandated by law and/or regulation. The FPSG makes the following general recommendations in relation to transfers (in addition to the model-specific recommendations in sections 5.2 to 5.4)

5.1.1 Transfers should be processed electronically unless legislation in a particular jurisdiction requires the delivery of physical instruments of transfer and/or signatures.

5.1.2 A prerequisite should be that transfers are agreed between the delivering and receiving parties before they are executed. In particular, units should not be "dumped" upon a transferee.

5.1.3 Where a transfer involves a change of distributor for the purposes of future trail commissions, this should be clearly identified in the transfer instruction and details of the new distributor provided (see also recommendation 7.8). Note that in some markets the TA may require separate holdings to be maintained for each distributor.

5.1.4 Instructions transmitted by any party to the TA should include the following minimum information:

ISIN
Number of units
Own and counterparty account details
Own and counterparty transaction references
Own and counterparty identifiers (BICs)

5.2 Single leg, transferor instructing

In this model, the person delivering the units (transferor) instructs the TA to re-register the units from their name into that of the person that is to receive the units (transferee).

Provided the TA is able to validate the transfer (appropriately authorized, sufficient units, complete transferor/transferee details etc.), it will re-register the units in the name of the transferee and confirm that the transfer has been processed (see Figure 5.2 below).

Although this model appears initially to be the obvious choice, with the existing holder controlling the delivery of the transfer instruction to the TA, a common problem in practice is that units are transferred to the Receiving Party without their knowledge. Consequently they only discover the units in their account in the course of a future reconciliation with the TA's register. It is key, therefore, that the delivering and receiving parties agree the transfer at the outset, and exchange the relevant details (see recommendations 5.1.2 - 5.1.4). The process may commence either with the Receiving Party providing its details and requesting transfer of the units, or with the Delivering Party requesting the information from the Receiving Party in order to prepare the transfer instruction.

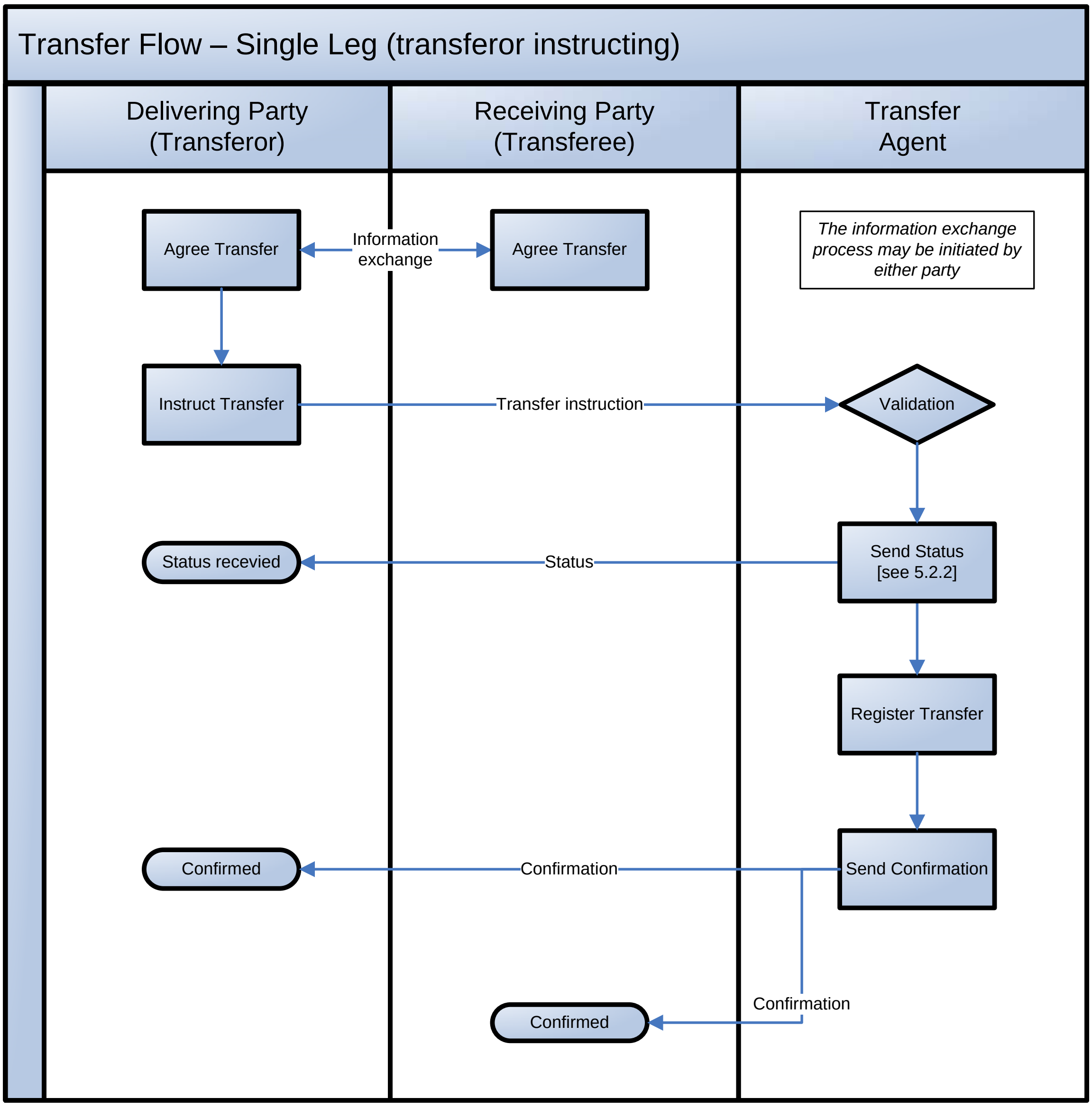


Figure 5.2

<u>Recommendations</u>

5.2.1 The Delivering Party should obtain full registration details from the transferee, as well as its transaction reference, before lodging the transfer instruction with the TA.

5.2.2 Interim status responses from the TA to Delivering Party are not recommended where manual processing continues to be a requirement.

5.2.3 Confirmation of the transfer should be sent to the Receiving Party, as well as to the transferor that lodges the instruction, as an additional measure to ensure that they are aware that the units have been delivered to their account, thereby minimizing the likelihood of it causing a reconciliation break.

5.3 Single leg, transferee instructing

The manual process in some markets practice involves the physical transfer documentation being signed by the Delivering Party and passed to Receiving Party, who will forward it to the TA. In addition, legislation in some markets may permit the Delivering Party to appoint someone else, including the Receiving Party, to instruct the TA on their behalf, thus allowing the transfer to be instructed electronically.

This model will not be available in many markets, but where it is the communication flows will be as described in Figure 5.2 above, except that the roles of the Delivering Party and Receiving Party are reversed.

Recommendations

5.3.1 The Receiving Party must obtain appropriate authority from the Delivering Party before instructing the TA and, unless it is submitting a physical instruction that has been signed by the Delivering Party, must give a warranty of that authority to the TA.

5.3.2 The Receiving Party should obtain full registration details from the transferor, as well as its transaction reference, before lodging the transfer instruction with the TA.

5.3.3 Interim status responses from the TA to Delivering Party are not recommended where manual processing remains a requirement.

5.3.4 Confirmation of the transfer should be sent to the Delivering Party, as well as to the transferee that lodges the instruction, as an additional security measure to ensure that they are aware that the units have been delivered from their account, thereby minimizing the risk of fraudulent transfer.

5.4 Double leg

In some markets the transferor and transferee may both be required to deliver instructions to the TA, who will re-register the units accordingly, given matching instructions from both parties (see Figure 5.4).

A common problem with this model, however, is that either of the delivery or receipt instructions may be delayed, leaving the TA with numerous unmatched instructions that cannot be processed further. The problem can be exacerbated in a manual environment, where physical paperwork needs to be stored pending receipt of a matching instruction.

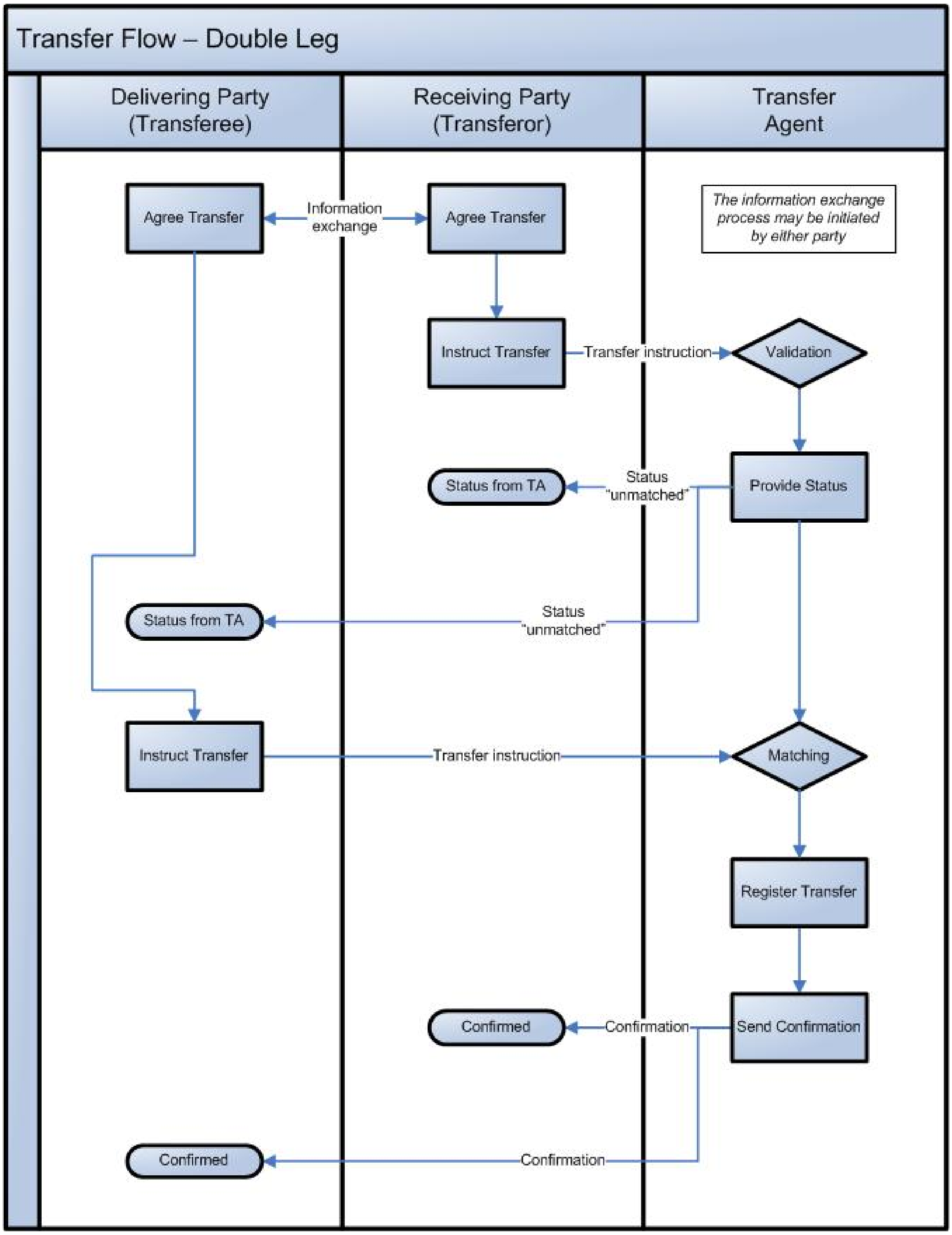


Figure 5.4

Note that, for simplicity, the above diagram illustrates only the scenario where the Receiving Party sends the first instruction to the TA. In practice it may equally be the Delivering Party that sends the first instruction.

Recommendations

5.4.1 The double leg model should be adopted only where it is a market requirement and where the instructions can be communicated electronically.

5.4.2 The delivering and receiving parties should exchange the relevant details (see recommendation 5.1.4) and agree the timing of their respective instructions to the TA.

5.4.3 The TA should acknowledge receipt of the first instruction by sending an "unmatched" status message to both parties in order to prompt the remaining party to submit their matching instruction.

5.4.4 Following receipt of matching instructions, the TA should confirm registration of the transfer to both parties.

6. HOLDING AND TRANSACTION REPORTING

During its initial investigations into the inefficiencies of dealing with investment funds, the FPSG identified three specific issues concerning the reporting of holdings (including valuations) and transactions to distributors and institutional holders:

(a) variable willingness from fund providers/administrators to meet custodians' requirements in terms of the frequency and timeliness of the reporting;

(b) inconsistency with regard to the format and content of the reporting, and in relation to the status of orders (dealt, settled etc.) that are included;

(c) lack of electronic reporting and inconsistency of message format.

There is a need, therefore, to increase the harmonization of basic reporting services provided by fund administrators to distributors and institutional holders. Figure 6 below illustrates the information flows that are within the scope of these recommendations:

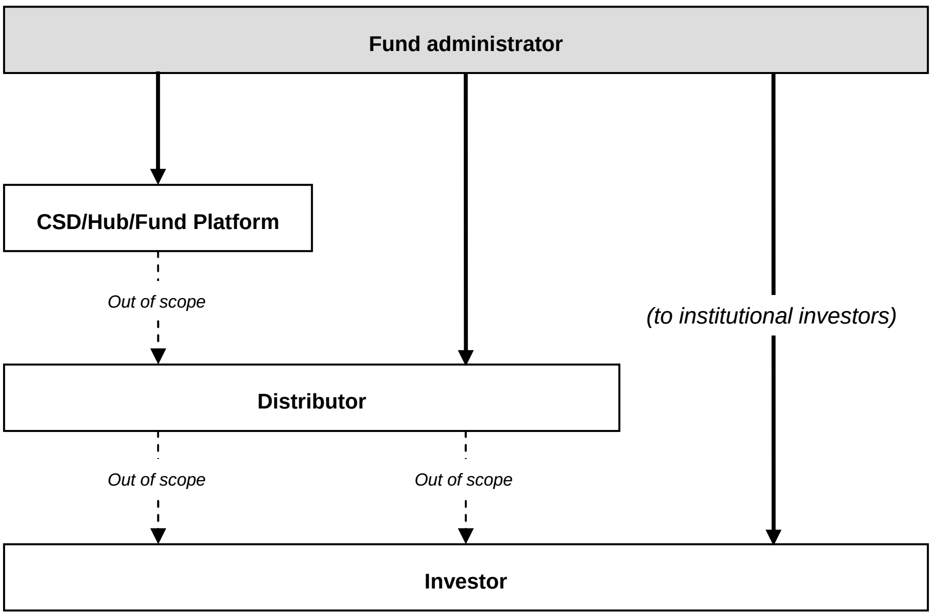


Figure 6

Note that communications between distributors and their service providers (eg. CSDs) or clients are not covered.

<u>Recommendations</u>

6.1 Fund administrators should offer reporting to distributors and investing institutions on at least a monthly basis. They may provide more frequent or ad hoc reporting by arrangement with the institution concerned.

6.2 Fund administrators should offer event-driven reporting (positions eligible for dividend and other corporate actions purposes) where required by the investing or distributor institution.

6.3 Holdings and valuations should be reported using both "traded" (orders that have been executed and priced but not yet settled) and "settled" (completed orders) positions, as required.

6.4 Valuations should be based on the last published price of the fund calculated prior to the statement cut-off.

6.5 Reports should be provided or available within 3 business days of the relevant statement cut-off date or ad hoc request.

6.6 Reports should be sent by the fund administrator or made available by them in a way that facilitates automated download by the recipient, using ISO message standards.

7. COMMISSION REPORTING

Issues

Distribution agreements between fund sponsors and distributors vary in content and format. However, they always provide at least for the remuneration of the distributor by way of fees or commissions, usually based on:

(a) a full or partial retention of fund entry charges (within limits set in the prospectus);

(b) one-off payment ("initial" commission) depending on the values of subscriptions, eg. to execution-only brokers; and

(c) ongoing payment of "trail" commission based upon the values of funds held.

These agreements also provide for the processing of orders according to specific contractual conditions.

Recommendations for the automated processing of commissions need to reflect market practices and fulfil the following needs:

- allowing the "commission calculation agent" (CCA), which may be the fund sponsor itself or someone else appointed by it, such as the fund administrator, to apply the right commission terms and fund charges to orders received from a distributor and communicate back the net amount to be paid on those orders;

- allowing the CCA to know at any time its obligations regarding the remuneration to be paid in relation to orders and holdings.

While the content and format of distribution agreements can be standardized to simplify remuneration processing, the calculation formulae to be used cannot be harmonized, as these are a matter for market competition. The automated processing of remuneration for fund distribution should not inhibit the commercial terms between the contracting parties, which will reflect their economic diversity. Note also that it is possible for a single distributor to agree different terms concerning the same fund.

As a prerequisite, funds that do not operate investor registers (eg. in certain CSD environments) need to be able to identify the individual distributors to whom trail commission is payable and to what they are entitled, given that investor custodians will in some instances commingle investments relating to multiple distributors in a single holding.

In addition, issues surround the reporting by CCAs to distributors, to enable them to reconcile payments received to their own positions, as follows:

(a) variable willingness to meet distributors' requirements in terms of the frequency and timeliness of the reporting;

(b) inconsistency with regard to the format and content of the reporting, and in relation to the status of orders (dealt, settled etc.) that are included;

(c) lack of electronic reporting and inconsistency of message format.

Recommendations

7.1 Distribution agreements should be in place between the fund sponsor and anyone to whom front-end, trail or other commission is to be paid. These agreements should adopt a common framework and contain certain core information[9]. The conditions applicable to the orders on which remuneration will be paid should be described in technical annexes to the agreement in order to simplify interpretation and implementation by the CCA and enable investor custodians or other distributors' delegates to understand their interests.

7.2 The fund administrator (and CCA, if different) should be advised of all such agreements and notified of any changes prior to the start of the commission calculation period.

7.3 Distribution agreements should describe a clear process to ensure that the correct and complete commission entitlement information with respect to holdings, transactions, and transfers is available to the CCA. This could for instance be achieved by:

(a) investor custodians maintaining segregated accounts with the fund administrator or on the fund register for the clients of each distributor, who may receive their remuneration from the CCA directly;

(b) investor custodians providing the CCA with breakdowns of their commingled holdings and transactions by underlying distributor in order for remuneration to be calculated; or

(c) the "deal marking" method, which requires distributors to mark each order to identify the relevant terms of distribution that should be associated with it.

7.4 Investor custodians should be able to identify distributor positions, either at the fund administrator or in their own records.

7.5 Distribution agreements should ensure that investor custodians only claim commissions on orders or holdings for which they are the distributor or executing agent.

7.6 Distributors should be identified by way of a BIC, plus an extension where required, to provide the necessary granularity. Where deal marking is used, in simple situations, when the distributor has only one basis of remuneration, the 'marking' can be composed only of the BIC. However, the BIC alone might not be enough in some circumstances and the distributor should be identified by an additional reference agreed by the contracting parties.

7.7 Orders should carry the relevant distributor's reference (as above) in order to facilitate the correct allocation and payment of remuneration. This reference should be carried throughout the process chain, by all intermediaries involved.

[9] EFAMA is supportive of the efforts of the Dematerialised Mutual Fund Sales Agreement (DMFSA) project, details of which may be found at www.dmfsa.info.

7.8 Transfers of units between distributors should be reported to the fund administrator/CCA irrespective of whether or not there is a change of custodian or how the holding is registered. The new distributor should be responsible ultimately for ensuring that the notification is made.

7.9 Initial and trail commissions should be reported separately due to the differing nature of the required detail.

7.10 Reports should be provided in association with periodic payment of commission. Ad hoc and periodic reports may also be provided in relation to payments accrued but not yet due.

7.11 Reports should be provided or available within 3 business days of the relevant statement cut-off date or ad hoc request.

7.12 Commission reporting should be sent or made available in a way that facilitates automated download by the recipient[10].

[10] Reports should be available electronically in ISO 20022-compliant formats when they become available.

8. CORPORATE ACTIONS AND OTHER NOTIFICATIONS (new section)

8.1 Definition and scope

This section considers the need to notify investors and others of events that arise from or have an impact upon holdings of units in an investment fund.

These include events that give rise to entitlements, either to income that is distributed by the fund or to units in the fund itself due to a structural reorganization, or to units in one or more other funds due to merger activity. They also include actions and events that require investors to be notified, such as changes to the constitution of a fund and unitholder meetings/voting.

Events that affect entitlements, be they to income or on a reorganization, will require financial institutions that hold units to reconcile their positions. The need for TAs to provide the reporting necessary to facilitate this is discussed in Section 6. The reconciliation process is not covered in this section.

8.2 Issues

Some notifications are governed by regulation, but this is often focused on the communication to unitholders, whereas there is invariably a benefit to advise the wider market, for example to assist prospective investors or to inform those who service existing holders. In addition, even where there is regulatory notification obligation, the timing of the communication is not prescribed, leading to inconsistency across the funds industry, which creates inefficiencies for those that might use the information.

The following sections make various recommendations with a view to addressing these issues.

8.3 Variations to the General Recommendations

The general recommendations contained in Section 3 apply to this section as they do to the others. However, given the specific nature of corporate actions and within the context of the wider securities industry in which investment funds reside, it is appropriate to consider modification of certain of those recommendations as follows:

8.3.1 *Electronic communications (see recommendation 3.3.1)* - communications between all parties should be electronic to the extent that it is permitted by applicable law and regulation and, in the case of end-investors, accepted by the recipient.

8.3.2 *Messaging standards (see recommendation 3.3.2)* - ISO 15022 and ISO 20022 are recognized as appropriate standards that for the time being will co-exist for the purposes of communications in relation to corporate actions

8.4 Income

The income earned by a fund on its investments may be handled in a variety of ways, but will be either retained within the fund (where the units are usually referred to as "roll-up" or "accumulation" units) or distributed to investors in one form or another.

Where the income is retained it is common among most jurisdictions for it be rolled up with the capital that is available for investment as soon as it is received[11]. Alternatively (with so-called "distribution" or "income" units), the income is removed from the fund periodically and distributed to investors. In some instances the investor may choose to reinvest their income in the purchase of additional units, either as part of the account set-up or by election on a distribution-by-distribution basis.

For roll-up funds the process is internal to the fund and does not generate an event or notification to investors[11]. The event process for distribution funds is described below.

Process description

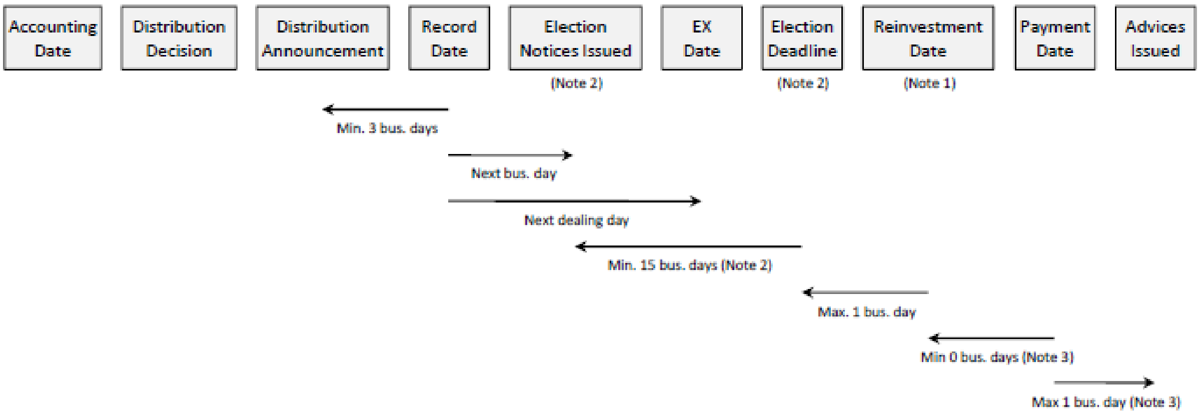
With equities that trade on secondary markets, there is typically a cut-off for entitlement to the dividend (when trading prices change from cum-dividend to ex-dividend) followed by a further cut-off (Record Date) that determines who will actually receive the dividend. There is then a market claims process to restore dividends to their rightful owners where transactions that were executed cum-dividend are not recorded in the unitholder register before the Record Date.

Investment fund orders, however, typically are executed by the fund's TA, who also maintains the fund register, in what is essentially a continuous primary market. As such, units can be traded on a cum-dividend basis right up to the Record Date, which determines both entitlement to the distribution and who will receive it in the first instance - there is no market claim process among unitholders. The Ex Date is then the first dealing day after the Record Date, being the first day on which orders placed with the TA will be allocated ex-dividend prices.

Two main variations of the income distribution process exist for investment funds. The recommendations in this report relate only to what is by far the most common model in Europe, in which the accounting period to which the distribution relates ends some time before the Record Date. The accounts are prepared and audited during the intervening period, allowing the distribution to be determined and declared before the Record Date, the timeline for which is illustrated in Figure 8.4 below[12].

[11] By exception, in UK "accumulation" funds the income that accrues during an accounting period is transferred to the fund's capital at the end of that period and is deemed to have been distributed and treated as income in the hands of the investor for tax purposes. The latter is also true for roll-up funds that are distributed cross-border into the UK. Externally, the event process is the same as for a distribution fund except that there is no payment of money to the investor.

[12] An alternative model operates in the UK, where the Record Date coincides with the Accounting Date. The distribution rate is therefore not known in advance of the Record Date and cannot be confirmed until nearer the payment date.



Notes
1. Applies only where distributions can be reinvested as subscriptions for further shares.
2. Applies only where investors may elect for reinvestment on a distribution-by-distribution basis.
3. In many cases the Reinvestment Date (if there is one) will be sufficiently in advance of the payment date to allow advices to be issued in order to arrive with holders on or before the Payment Date.

Figure 8.4

Reinvestment schemes are available for some funds whereby the distribution is used automatically to purchase additional units, which are added to the investor's holding. Reinvestment is not mandatory, but occurs on the instruction of the investor. In some cases this may be a standing instruction, while in others the investor is able to elect to reinvest on a distribution-by-distribution basis (elective reinvestment). In the latter case, election notices are issued by the TA following the Record Date to those who are entitled to receive the distribution. Elections for reinvestment need to be returned to the TA in time for the appropriate arrangements to be made prior to Payment Date. The default option (ie. where no election is received) is for the investor to receive a cash distribution.

The reinvestment process itself will take place on or before the Payment Date, so that the associated subscriptions for units can be settled using the funds made available by the distribution.

As can be seen above, the most limiting factor in terms of minimizing the timescales is the election period for reinvestment, which needs to provide sufficient opportunity for unitholders that are themselves account providers to obtain instructions from their underlying investors. This requires a minimum time span of 20 business days between the announcement and the Payment Date, plus the time needed to determine the distribution rate. Some funds, particularly money market funds, which distribute more frequently, need to complete the process within a much shorter timeframe. They are able to do so by not providing elective reinvestment, which permits the payment process (as well as reinvestment under standing instructions) to commence immediately following the Record Date.

Recommendations

8.4.1 Distribution announcements should be made available to the market (including distributors, servicing agents and underlying investors) directly and/or via one or more data vendors, as appropriate.

8.4.2 Such announcements should include details of known dates within the event process.

8.4.3 Event timings and intervals should be within the parameters indicated in the illustrations above, noting that the overall timeframe may be reduced considerably where elective reinvestment is not provided.

8.4.4 Payments should be made by electronic means wherever possible and issued with sufficient time to arrive with the payee no later than the Payment Date.

8.4.5 Reinvestment statements, tax certificates etc. should be issued in electronic form, insofar as local law and regulation permits and where desired by the holder.

8.5 Unitholder meetings

Note that the actual process and timing of the various steps involved in convening a unitholder meeting will be driven by the laws and regulations that are relevant to the fund concerned. The process suggested below is for illustrative purposes only.

Unitholder approval is usually a prerequisite to any significant change to the constitution of a fund or any reorganization that will have a material impact on the interests of investors. This will involve arranging a general meeting of unitholders, for which advance notice will need to be given, and providing proxy voting facilities.

The specific obligations of fund operators in this respect will be determined by the law and regulation applicable in the domicile of the fund and in some cases also in the jurisdictions(s) in which the fund is registered for distribution. These will cover issues such as:

- the required prior regulatory clearances etc.;
- who is able to attend general meetings and vote, including record dates for eligible unit holdings and restrictions relating to holders that are associated with the fund provider;
- the availability of documentation;
- notice periods etc.; and
- quorum requirements and voting necessary to approve a resolution.

Notwithstanding the likely local variations, a typical process is described below.

<u>Process description</u>

Subject to the required regulatory approvals and other clearances, notices will be issued to the unitholders registered on a particular date, containing details of the general meeting and the proposed changes and including the relevant proxy voting documentation. Where relevant, notice of the meeting will be announced publicly for the benefit of holders of bearer units, together with instructions for them to participate in the meeting, in accordance with applicable law and regulation and the fund's prospectus.

The minimum notice period will be stipulated in local law and regulation, but will need to be sufficient to allow investors to reflect on the proposals and for intermediary holders to obtain instructions from the underlying investors as necessary.

Proxy voting instructions will be returned and recorded up until the meeting or some earlier cut-off, as determined by local law and regulation.

In due course the meeting will be held and, subject to the required quorum being present in person or by proxy, the vote will be taken to approve or reject the change. If a quorum is not obtained, the meeting will need to be rearranged and notice given again to eligible holders. The required notice period for the rearranged meeting will usually be considerably shorter than for the original meeting.

The decision of the meeting (or rearranged meeting, if one is required) will then be communicated to investors and the wider market.

The process is illustrated in Figure 8.5 below:

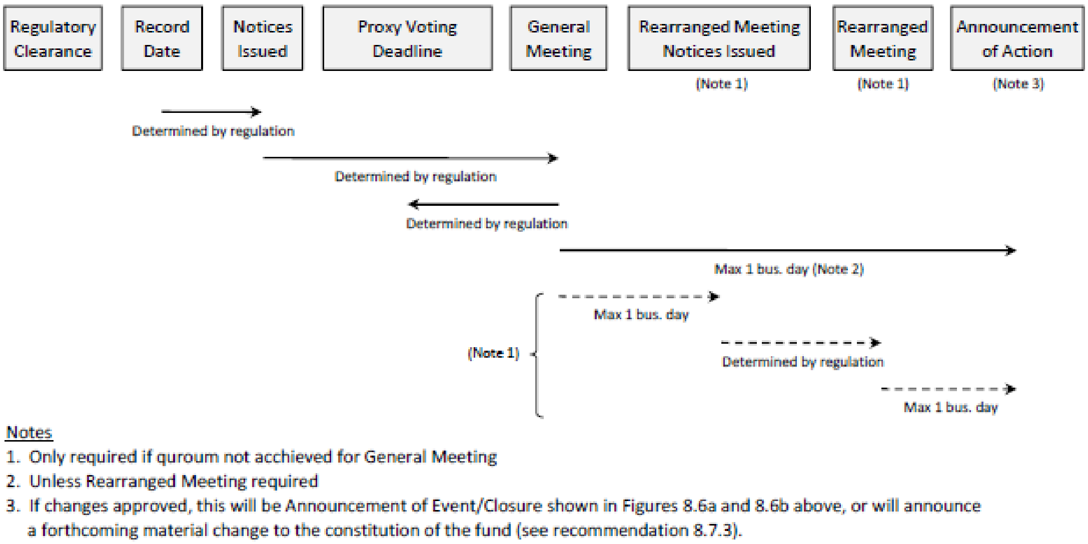


Figure 8.5

Recommendations

8.5.1 Meeting notices and announcements should be issued in electronic form, insofar as local law and regulation permits and where desired by the holder.

8.5.2 Addenda should be provided with fund literature and ad hoc communications (eg. order confirmations) to alert prospective and new investors to the impending changes.

8.5.3 Proxy voting should be conducted in electronic form, insofar as local law and regulation permits and where desired by the holder.

8.5.4 Event timings and intervals should be within the parameters indicated in the illustration above, or as may be dictated otherwise by applicable law and regulation.

8.5.5 Announcements regarding the outcome of a unitholder vote should be made available to the market directly and/or via one or more data vendors (see also recommendation 8.6.1 below).

8.6 Fund reorganizations

For the purposes of this document, the term "fund reorganizations" refers to events that involve changes to an investor's entitlement. Reorganization events include:

- simple sub-division or consolidation of existing units, whereby the fund's investment portfolio and the investor's interest in it remains unchanged, albeit through a different number of units;
- change to the fund's domicile, whereby the number of units an investor holds might remain unchanged, but in any event will transform to a new ISIN that reflects the new country of issue;
- fund mergers, resulting in the cancellation of the investor's units in one fund and replacement with units in another fund to the same value;
- fund demergers, where a fund is split into two or more separate funds;
- closure of a fund and distribution to investors of their share of the proceeds from the liquidation of the fund's assets.

Fund reorganizations usually require a general meeting of holders and their formal approval. This process is discussed in section 8.5 above.

<u>Process description</u>

This section considers the reorganization process after any necessary approvals have been obtained (see 8.5 above), commencing with an announcement to investors and the wider market.

Where necessary, the fund (or funds in the case of a merger) will be valued on the due date for the event for the purposes of calculating the new entitlement. In any case this will be the date on or from which the event will be effective. In many instances, dealing in the units will be suspended for a short period before and/or after the event in order to allow final pre-event preparations and an orderly calculation and allocation of the new entitlements afterwards.

In the case of a fund closure there may be an extended period following the event before entitlements are distributed, while the fund's assets are liquidated and its affairs wound up. During this time there will often be an initial distribution of monies to investors, followed by one or more further payments as funds become available for release.

Figures 8.6a and 8.6b below compare the process and timeline for most reorganization events against that for a fund closure specifically.

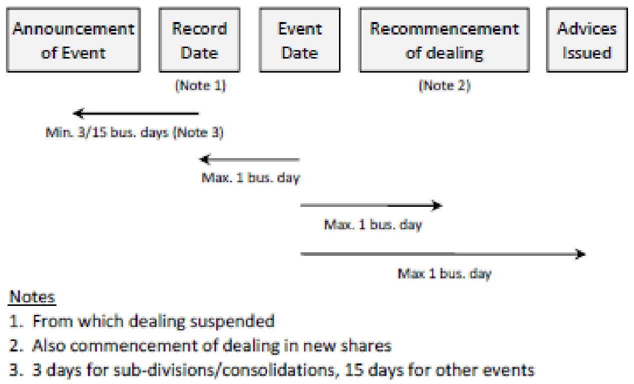


Figure 8.6a

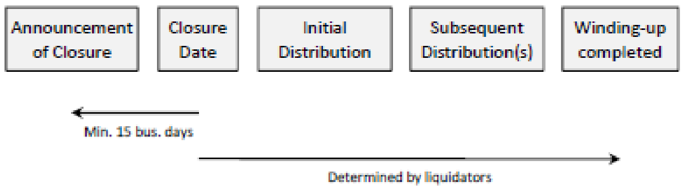


Figure 8.6b

<u>Recommendations</u>

8.6.1 Announcements of reorganization events should be made available to the market (including distributors, servicing agents and underlying investors) directly and/or via one or more data vendors, as appropriate (see also recommendation 8.5.5 above).

8.6.2 Such announcements should include details of known dates within the event process.

8.6.3 Addenda should be provided with fund literature and ad hoc communications (eg. order confirmations) to alert prospective and new investors to the impending reorganization.

8.6.4 Event timings and intervals should be within the parameters indicated in the illustrations above.

8.6.5 In the case of fund closure, distribution payments should be made by electronic means wherever possible, identifying clearly the purpose of the payment.

8.6.6 Advices of entitlements should be issued in electronic form, insofar as local law and regulation permits and where desired by the holder.

8.7 Other pre-/post-event notifications

Fund providers are required to notify investors of any material change to the operation of a fund even if it does not alter the nature of fund or their interest in it. Such changes might include replacement of the TA or depositary, or perhaps alteration of to the dealing cut-off point.

Depending on the nature and significance of the change, such notification may be pre- or post-event. In many cases, however, the change will require prior notification to the regulator and possibly will be subject to its clearance. Whether or not a particular change must be notified in advance will in some instances be determined by local law and regulation, but in others may be a matter for agreement between the fund provider and the fund depositary. Moreover, in some cases, post-event notification to investors may be deferred until the next scheduled communication, eg. publication of the report and accounts.

Whether or not a market notification is necessary will depend upon the nature of the change and in some cases communication to the market may be driven by commercial considerations such as investor and distributor relations.

Recommendations

8.7.1 Announcements should be made to the wider market where appropriate and in any case with regard to changes that will impact the operations of distributors and servicing intermediaries (eg. changes to dealing cut-off points).

8.7.2 Market announcements should be made directly and/or via one or more data vendors and, where relevant, through amendment to Fund Processing Passports, in addition to the revision of constitutional and other regulatory documentation (eg. prospectus, KIID etc.).

8.7.3 Unless otherwise directed by applicable law and regulation, changes that may have a material impact on investors (eg. amendments to a fund's investment policy should be implemented not less than 15 business days after they are announced).

8.7.4 Addenda should be provided with fund literature and ad hoc communications (eg. order confirmations) to alert prospective and new investors to any impending changes that may impact on a decision to subscribe or redeem.

9. IMPLEMENTATION

EFAMA has taken a leading role in bringing together market participants to discuss and develop the recommendations contained in this paper and will continue to lead the European funds industry's efforts to identify further measures, as appropriate.

Implementation, however, requires practitioner support from both fund providers/administrators and buy-side institutions. To that end, EFAMA continues to work actively with other international market associations and initiatives, most notably the International Securities Services Association (ISSA), while national funds associations and corporate members of EFAMA are encouraged to endorse and adopt the recommendations from within the funds industry.

In parallel with its adoption of ISO 20022 as the single messaging standard, EFAMA acknowledges the key role of the Securities Market Practice Group (SMPG) in developing harmonized market practice concerning the use of the various messages.

Figure 9 below highlights the relationships and mechanisms through which EFAMA seeks to develop its recommendations and promote their adoption.

Ultimately, all market participants are urged to examine their own policies and processes and move towards alignment with the recommendations contained within this document and to make appropriate investment in the automation of fund processing and adoption of the associated ISO 20022 standard messages.

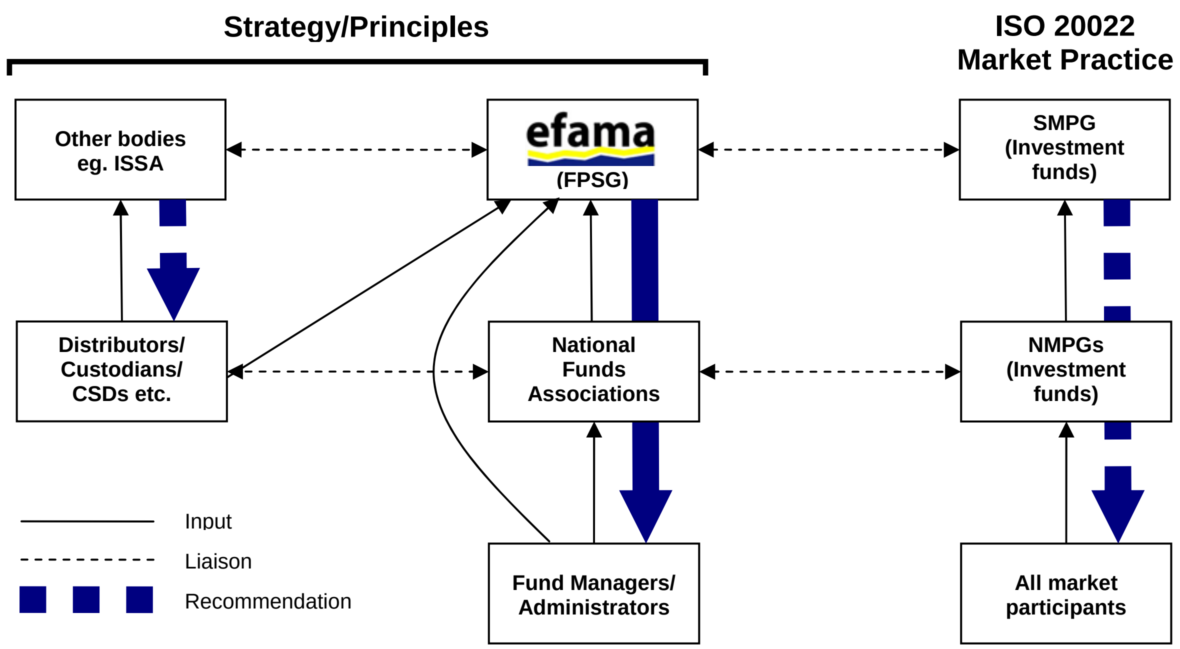


Figure 9

10. INDUSTRY STAKEHOLDERS REACTION (new section)

“The progress in fund processing standards that has been achieved over the last few years is significant and measurable. It is a proof that self-regulation can work”.

Wolfgang Mansfeld, former President of EFAMA (FEFSI) and founder of the Fund Processing Initiative in 2003

“The efforts undertaken by EFAMA’s FPSG to make fund processing simpler and more automated are commendable. By promoting convergence towards standardised best practices and solutions, such as the single leg transfer developed by the Findel Transfer Working Group, the FPSG plays an important role in harmonising fund processing practices across Europe and creating an efficient European fund marketplace.”

Kathy Shackle, Operations Automation Director, Continental Europe, FIL (Luxembourg) S.A., Fidelity International

“The work accomplished by the FPSG is tremendous. Their recommendations are not only clear and detailed, but above all practical and relatively easy to implement. We at Clearstream thank the Group for their contribution and we are committed to keep on implementing all the recommendations.”

Philippe Seyll, Head of Investment Funds Services, Member of the Executive Board, Clearstream International S.A.

“Industry best practice recommendations are a key ingredient complementing ISO standards to achieve the full benefits of straight-through-processing. This report completes the review of all major fund distribution flows, with the addition of recommendations on transfers and corporate actions. This is a great achievement for the fund industry. We strongly support - and look forward to actively contributing to - its adoption in the market.”

Fabian Vandenreydt, Head of Securities and Treasury Markets at SWIFT

“Since the original FPSG report was commissioned, financial markets have been exposed to extreme economic conditions which resulted in unprecedented levels of volatility and uncertainty. During such times transactions volumes rarely decrease in number, conversely the level of risk increases significantly at the same time as organisations come under pressure to reduce operating costs. Without doubt those organisations with the highest levels of automation were best placed to manage both their costs and the associated risk. The work of the FPSG in nurturing and promoting standards and automation initiatives in Europe has accelerated the investment fund industry’s transition to a modern trading environment.”

Gary Janaway, Head of Operations Schroders Luxembourg, Chairman of the Findel Group

“The expanded FPSG report now covers all operational aspects of fund processing. It offers sensible best practice recommendations to ensure that the UCITS brand remains a quality seal that not only applies to the distribution side, but also to all operational aspects of fund processing. It is the result of a unique collaboration of operations experts from all segments along the funds processing chain, whom EFAMA has managed to bring together to share their expertise, to the benefit of all stakeholders and including the ultimate investors.”

Peter Gnepf, International Securities Services Association (ISSA)

“Euroclear applauds EFAMA for the work it is doing to deliver greater fund-transaction processing efficiencies and savings to the market. As part of the European market infrastructure and an active member of the FSPG group, Euroclear strongly supports the industry's move towards greater standardization in fund-transaction processing. The single-leg transfer process, sponsored by the Findel Working Group in Luxembourg and endorsed by EFAMA, is a good example of how a concept can become reality. We look forward to sharing the benefits of shorter processing times and reduced costs with our clients, and to managing greater transaction flows that are likely to materialize as a result of the new process. This is a win-win initiative for all professionals across the fund transfer chain.”

Pierre Yves Goemans, Managing Director, Commercial, Euroclear

“The introduction of the EFAMA FPP Portal enables Robeco and its clients to work together more efficiently and effectively.”

Jan Monster, Head of Robeco's Fund Information Services

“The IMA is a strong supporter of EFAMA's work in this area and of the FPSG recommendations, which we endorse and commend to the UK market through our own Fund Processing Principles. We have also worked successfully with the UK government and regulator and with the industry itself to remove key technical barriers to their implementation; bringing about, for example, revisions to UK law and regulation in 2009 to permit the transfer and renunciation of title to FSA-authorised funds through electronic messaging. We welcome this latest extension to the FPSG report and will look to update the IMA Principles in due course in order to incorporate the additional recommendations.”

Richard Saunders, Chief Executive, Investment Management Association

“It is tempting to think that there is some big bang solution to improving the efficient global processing of investment funds. Experience tells us that this is not the case and in its place, small regular incremental improvements undertaken consistently by all actors across the value chain do eventually add up to significant efficiency gains. EFAMA's FPSG has focused upon practical recommendations since its inception in 2003 and the latest version of its report is once again in this spirit. By continuing to focus the Industry's attention on the operating model for investment funds, the FPSG is undertaking a very worthwhile initiative which benefits everyone in the Industry and most importantly, investors and wider society.”

Martyn Cuff, Managing Director, AllianzGI Luxembourg

“EFAMA's activities and leadership regarding the improvement of fund processing is very welcomed, in particular by the Austrian investment fund industry, since more efficient fund processing leads to better service, lower costs and a significant reduction of operational risks. Also, the introduction of the Fund Processing Passport (FPP) made industry players realize how powerful this tool and its future potential are - there is surely an appetite to make wider use of it and maybe the KID will prove to become its congenial counterpart.”

Armin Kammel, Head of Legal & International Affairs, Austrian Association of Investment Fund Management Companies (VÖIG)

"The FPSG's recommendations constitute a major contribution to the convergence of the European investment fund industry towards global industry-wide standards. We are proud that ALFI, under the remit of its TA & Distribution Forum's dedicated Standardisation Working Group, has collaborated to the work of the FPSG since its inception, and we remain fully committed to the adoption of the FPSG standards by all players in the fund processing value chain. This is a necessary condition for the standards to produce their strongest impact and help the industry to continue being competitive and successful for years to come, from a global cross-border fund servicing perspective."

Josée-Lynda Denis, Chairwoman of the ALFI TA & Distribution Forum

"Assogestioni has been working with EFAMA in the field of standardization since 2003 and welcomes the new report which represents a further step towards ever improving the efficiency of fund processing. The best practice developed by the FPSG and SMPG have been an invaluable basis for the development of the national best practice and continues leading the way in the standardization of processing to new areas such as corporate actions and transfers. Assogestioni has already adopted the FPSG best practice in the Guidelines for the standardization of processes of the Italian investment industry and we look forward to working together with EFAMA in fostering the adoption of such guidelines and the continuous alignment between national and European standards."

Fabio Galli, Director General, Italian Association of Investment Management (Assogestioni)

GLOSSARY

This glossary should be read in conjunction with the ISO 20022 Data Dictionary, which is available at www.iso20022.org and will be updated in due course to include items identified by the FPSG.

Accounting Date	the end of a fund's accounting period, for which the income accrued during that period may subsequently be distributed to investors.
accumulation units	fund units, the income accruing to which is transferred to the fund's capital at the end of the accounting period and retained within the fund instead of being paid away to investors; the retained income is nonetheless deemed to have been distributed to investors for tax purposes (see also "roll-up fund/units").
acknowledgement	a message returned by the fund-side institution to the client-side institution, which indicates that an order has been received and accepted for execution.
aggregator	a client-side institution that maintains a single holding in a fund on behalf of multiple clients, from whom it receives orders to deal and passes them to the fund-side institution as a single consolidated order (eg. fund supermarkets).
BIC	Business Identifier Code - international standard (ISO 9362) reference code used to identify financial institutions as well as other business entities that are involved in financial messaging.
CCA	see "Commission Calculation Agent"
Central Securities Depository	an entity which holds securities and other assets in order that domestic transactions may be effected for beneficial owners and settled by way of entries within its own books.
client-side institution	a financial institution that represents or provides services to the underlying investor in the order and settlement process - includes fund supermarkets and other distributors, as well as client custodians.
Closure Date	the date on which a fund is formally closed for the purposes of being wound up.
commission	remuneration paid to a distributor by the fund sponsor in connection with subscription orders and the continued holding of the units concerned (see also "initial commission" and "trail commission") .

commission calculation agent	person responsible for the calculation and payment of commission to distributors - usually the fund sponsor or someone (eg. the fund administrator) appoint by them for that purpose.
confirmation	a message returned by the fund-side institution to the client-side institution, which confirms the full details of an order that has been executed.
cross-border	activities connected to the distribution of funds in counties other than their home domiciles.
CSD	see "Central Securities Depository"
deal marking	a mechanism for identifying with each order the distributor to whom the order relates, for the purposes of future commission calculations (known in France as "marquage des orders")
depositary	see "fund depositary".
distribution units	fund units, the income accruing to which is distributed to investors following the end of the accounting period.
distributor	a client-side institution that promotes to its customers the sale of units issued by funds of one or more fund provider and acts as the client's agent in the order input/placement process.
Event Date	the date on which a fund reorganization is executed.
Ex Date	the first dealing day on which fund units will be bought and sold at ex-dividend prices.
execution	the processing of an order by the fund-side institution through the fund's or its own books.
FPP	see "Fund Processing Passport"
fund administrator	an entity that carries out the administration functions for a fund or fund management company - includes the fund management company itself and transfer agent, as appropriate.
fund depositary	a financial institution that is appointed under a fund's constitution to oversee the operation of the fund and to whom its assets are entrusted for safe-keeping.
fund order desk	the function within the fund administrator that is responsible for the receipt and processing of fund orders.

Fund Processing Passport	a standard set of operational data in relation to a fund, at class level, which includes all the information required by a client-side institution to place and settle an order.
fund provider	the fund management company or fund sponsor.
fund reorganization	an event that alters an investor's entitlement in a fund by alteration of the number of units held, or their replacement by new units in the same or one or more different funds, or on a fund's closure and winding-up.
fund-side institution	a financial institution that represents or provides services to the fund in the order and settlement process - includes the transfer agent, or fund provider, depositary and fund custodian.
hub	(a) a neutral infrastructure provider that receives orders from multiple client-side institutions and transmits them to the relevant fund-side institution; or (b) a client-side institution that collates orders from multiple clients and places them individually with the relevant fund-side institution.
IBAN	International Bank Account Number - an international standard (ISO 13616) reference code used to identify individual bank accounts.
ICSD	International Central Securities Depository - an entity which holds securities and other assets in order that cross-border transactions may be effected for beneficial owners and settled by way of entries within its own books (see also Central Securities Depository).
income units	see "distribution units".
initial commission	commission paid once to a distributor in relation to a subscription order according to the value of that order.
investor custodian	a financial institution appointed by the investor or distributor in whose name (or nominee name) fund units the investor's units will be held (known in France as the Teneurs de Compte)
ISIN	International Security Identification Number - international standard (ISO 6166) reference code used to identify individual securities.
ISO	International Organization for Standardization (see www.iso.org).

national association	a representative organization, the membership of which consists (wholly or partly) of fund-side institutions.
order	a transaction to invest in or sell units in an investment fund (see also "subscription" and "redemption")
Payment Date	the date on which a distribution of a fund's income is paid to investors.
platform	a client-side institution that aggregates orders from multiple clients and places them with the relevant fund-side institution (see also "aggregator")
Record Date	the date on which entries on the fund's register of holders will determine their entitlement to income or arising from a reorganization event or to participate in a unitholder vote.
redemption	a transaction whereby units in a fund are sold back to the fund or fund management company.
register	the official record of holders of a fund.
reinvestment	the pre-arranged investment of an investor’s income entitlement automatically in the purchase of additional fund units.
reorganization	see "fund reorganization".
roll-up funds/units	fund/units, the income accruing to which is rolled up within the fund/unit's capital for immediate investment instead of being retained for distribution to investors; the rolled-up amount is not regarded as income in the hands of the investor (see also "accumulation units").
settlement	the process of transferring the cash value of a transaction to or from the fund or fund management company in exchange for the registration or de-registration (as appropriate) of title to the units concerned - may be effected by actual movements between the client-side and fund administrator or via a CSD/ICSD
subscription	a transaction whereby units in a fund are purchased from the fund or fund management company.
TA	See "transfer agent"
trail commission	commission paid to a distributor on a periodic basis, calculated on the value of units held by its client investors.

transfer	the movement of units between two accounts recorded in the legal register of fund holders - may occur between different holders or between two accounts of the same holder.
transfer agent	a fund-side institution in many jurisdictions that executes the issue and redemption of units on the fund's behalf and usually maintains the register of title. In France the equivalent entity is the "centralisateur", which does not maintain the register.
UCITS	an investment fund governed by national legislation established under European Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), as amended.
units	the participating shares or units in an investment fund.

ANNEX 1: MEMBERSHIP OF THE FPSG

Organization

Rudolf Siebel (BVI)	Chair of the FPSG
Bernard Delbecque (EFAMA)	Chair of the FPP Working Group and Secretary of the FPSG
David Broadway (IMA)	Chair of the Transaction Best Practice Working Group
Michèle De Boe (SWIFT)	Co-Chair of the ISO 20022 Working Group
Caroline Prospéri (CACEIS)	Co-Chair of the ISO 20022 Working Group

Membership

EFAMA is very grateful to the following institutions and organizations for their contributions to the development of these recommendations since the inception of the FPSG in 2003.

Association Française de la Gestion financière (AFG)	France
Allfunds Bank	Spain
Allianz Global Investors	Germany/UK
Assogestioni	Italy
AXA Investment Managers	Germany
BNY Mellon Asset Servicing	Luxembourg
La Banque Postale Asset Management	France
BlackRock	UK
BNP Paribas Securities Services	France
Bundesverband Investment und Asset Management (BVI)	Germany
CACEIS Investor Services	Luxembourg
Caixa Geral de Depósitos	Portugal
Carmignac Gestion	France
Citco	Italy
Citi	Ireland
Clearstram Bank	Luxembourg
Credit Suisse	Switzerland
DekaBank	Germany
Dexia BIL	Luxembourg
DWS	Germany
Euroclear	Belgium
Fastnet	Luxembourg
FERI	Germany
Fidelity International	Luxembourg
Finesti	Luxembourg
First Nordic	Norway
Fortis	Luxembourg/Netherlands
Fortis Investments	Belgium
Franklin Templeton Investments	UK
FundConnect	Denmark
FundsXML	France
HSBC	Ireland
Investment Management Association (IMA)	UK
Invesco	Germany/Ireland/UK

International Securities Services Association (ISSA)	-
Intesa Sanpaulo	Italy
KBC Asset Management	Belgium
KNEIP	Luxembourg
M&G Investments	UK
Natexis Asset Management	France
Nordea Investment Funds	Finland
Pioneer Investments	Italy
RBC Dexia Investor Services	Luxembourg
Robeco Investment Management	Netherlands
Schroders	Luxembourg
SIS Clear	Germany
Skagen Funds	Norway
Société Générale	France
SWIFT	Belgium
Union Investment	Germany
Vereinigung Österreichischer Investmentgesellschaften (VÖIG)	Austria
VPS	Norway
WM Datenservice	Germany

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