

Investment Managers

on SWIFT



THE VALUE OF SWIFT TO INVESTMENT MANAGERS

ISSUE 3 Q4 2008



In the eye of the storm

Sibos brings the investment community together at a critical time...

pg7



Key driver for 2009?

Risk management, risk management, risk management!

pg6

The invisible power of SWIFT

How can SWIFT help you?

What's on offer for investment managers?

pg10

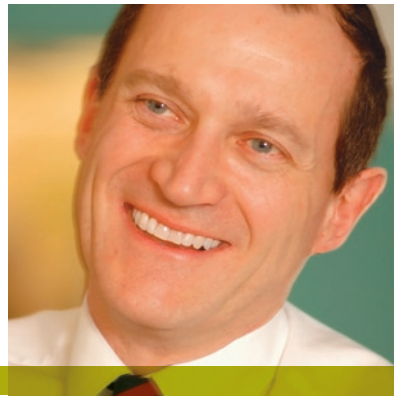
Standard Life Savings' chief executive, Geoff Towers discusses how SWIFT can support standardisation and automation in the funds industry

pg2



The invisible power of SWIFT

Fund platforms and the rise of wrap have changed the face of the fund and life industries. Where historically these businesses have been less driven by the need for instantaneous processes, fund platforms and wrap mean offering 24/7 visibility – and being able to meet the requirement of intermediaries and their customers for real-time access to and information about their investments. This is driving a growing need for straight-through processing among platform providers.



Geoff Towers is chief executive of Standard Life Savings

Earlier this year, Standard Life Savings Ltd in the UK – part of major asset manager and insurer Standard Life – became the first fund platform provider in the world to automate the account opening process with SWIFT. Standard Life and SWIFT worked together to deliver ISO 20022 compliant funds messaging for the account opening process, the first practical implementation of which was an enhancement to Standard Life's Self Invested Personal Pension

(SIPP) enabling customers to trade via FundZone, its mutual fund supermarket. As a result, advisers and customers on both individual and group SIPPs can now access more than 1000 funds from leading fund managers at attractive prices through a safe and prompt process.

Standard Life Savings' chief executive Geoff Towers spoke to *Investment Managers on SWIFT* about the achievement of this "first win" with SWIFT, and how SWIFT can support further standardisation and automation for the funds industry.

Why did you choose to work with SWIFT for your automation project?

When we looked at SWIFT – and we looked at other suppliers too – the quality it has delivered to the banking industry (I spent many years at Citi and Barclays) was an important consideration. We were reassured that SWIFT understands the importance of right first time, on time, from its pedigree in major international payments.

Much of the fund and life industry has in the past been less driven by 'clear to zero' – the principle that something must happen now. But the world has changed, especially with platforms and wrap, where a customer can say, "I just gave you an instruction, has it been carried out yet?"

As a provider of these services, I need suppliers that understand this, and SWIFT's banking pedigree went a long way towards assuring us it does.

Was your experience of working with SWIFT a positive one?

For a business manager, one of the best things SWIFT can be is invisible. Services that just run without fail are exactly

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Geoff Towers, chief executive, Standard Life Savings

what we need. If we know it works, we don't have to think about it. Having a partner that knows the right people in the organisation to work with, and does so, is also very valuable. A quiet delivery of promises gets notice and approval far more effectively than when people shout at anyone and everyone that will listen. One of the things a business service provider can do really well is to find the right people to engage with, so that people at the senior level can just say, great, my experts are talking to their experts, and it's all working.

Our project with SWIFT involved counterparts at FNZ and elsewhere, so the SWIFT people were working in a situation in which there were a number of players in the room, different commercial enterprises with possible different priorities, approaches and opinions, and they found their way through that.

What challenges do you believe SWIFT faces in achieving wider take-up in the funds industry?

One of the challenges SWIFT has is how to get the message across to business managers without bounding into rooms and hitting us with technical terms that make us feel stupid. The question is how to get the message across to both operational executives and senior business executives – and it's important to recognise that the messages are different.

For the business executives, the focus needs to be on aligning with international standards, on the fact that SWIFT is seamless from the business side, and on the 'clear to zero' banking pedigree.

People who have grown up through the funds world don't necessarily know SWIFT, and that's also part of the challenge. And having given SWIFT great credit for its banking pedigree, I would also say SWIFT needs to understand very deeply



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the different complications that exist in life and fund companies – and to ensure that its credentials in this industry are clearly perceived. SWIFT needs to reach further into the investment market, and show people that it understands this business.

How important is standardisation in supporting your efficiency goals?

Standardisation is very important. If you look at the comparative costs of processing mutual funds in the US and Europe, we're looking at cents versus dollars, and that tells us something about the power of standardisation. Clearly it lowers the cost.

It's easy to forget that at the end of the day there is a real customer out there, with real money, making decisions about how to spend it. To them, the difference between \$10 and 50 cents could well be material. Losing sight of that doesn't help the customer, and if you can take \$9.50 out, and lower the platform cost or the cost of advice, this is beneficial to the end customer because competitive forces will ultimately drive down costs for them.

The quality of the administration chain is also very important, from the adviser creating the order through to the fund manager receiving the cash into the portfolio. Weaknesses in that chain cause the customer enormous angst, especially in the current market. If they have placed an order, they want to know what price

they got. If a dividend payment is late, the customer will assume the worst. So a second benefit of standardisation is in helping to rebuild consumer trust.

It's easy to think that given where SWIFT sits in the value chain it looks so far out from the customer, but I'm convinced that clean, efficient administration makes the whole process look better to the customer.

The challenge with standards is that one man's have got to be the same as the next man's. Everyone has their own top favourite solution, and there'll all different – but where SWIFT with its co-operative approach could lead on this is to ensure it is everyone's second favourite solution, adopted by all.

Maybe SWIFT could do more to lead the industry on this. While the platform market is still very new, this is a great time to drive some standardisation.

Do you plan to build on what you've done with SWIFT to achieve further automation?

We've enjoyed working with SWIFT so far in terms of our platform business. SWIFT needs to keep talking to us about what it is developing, and where its thinking is going. SWIFT has won its spurs, and the first battle, and now it's a communication issue – SWIFT should tell us what we need to be thinking about.

We have achieved a first win, and there is no reason we shouldn't go after more.

Welcome to the year-end issue of Investment Managers on SWIFT

As 2008 comes to a close we can be certain that this has been one of the toughest and most transformational years that the financial industry has seen in recent times; and we can also be sure that these challenges will continue with us through into 2009. The investment management industry has certainly been influenced heavily by these events, with New Star becoming one of the most recent to feel the pressures exerted by the credit crisis.

Some of the early incidents of this crisis happened during the Sibos conference in Vienna this September. In what would become a historic week for our industry, the first day was marked by the demise of Lehman Brothers and significant challenges at Merrill Lynch, swiftly followed by troubles at the AIG group.

Few of us will have experienced anything like this before in our careers. But at a time of so much uncertainty in the market, I believe SWIFT demonstrated some of its key benefits to the community. I was told by many of our clients that they were very pleased to be able to meet their clients, counterparts and competitors face-to-face as the dramatic events unfolded. Rather than being tucked away in their own offices, the fact that large numbers of senior industry players were able to discuss problems in an honest and personal way made Sibos a particularly valuable experience in 2008. After all, one of the key values of SWIFT, and naturally of Sibos, is to act as a place where our community can share their views, and conduct critical dialogue.

So, as we enter 2009 what can the industry expect, and how can SWIFT help? Whilst inevitably, this will be a year of low expenditures, which will lead to the curtailment of many projects, it is probably in the areas covered by SWIFT that ongoing investment should be maintained. At times like these, it is the core values of SWIFT – security, efficiency, risk reduction and cost reduction – that become areas of key focus. Avoiding basic operational errors, keeping a close track on transactions, and ensuring processes work at their maximum financial efficiency become very much the



Jean Sonnevile, head of investment managers market, SWIFT

order of the day. SWIFT is delighted to help its community tackle these challenges.

We have already completed a set of new messages, which will enable the industry to conduct alternative and hedge fund transactions, along with a market practice document written by the main players in the space to agree how they should be used. In the second quarter 2009, we will pilot the second phase of Alliance Lite, which will allow the smaller volume fund and investment management community to benefit from the security, resilience and efficiency of SWIFT. We will also see the continued roll out of Accord matching services, bringing additional choice into the equity and fixed income space – initially to improve the communication flows between prime brokers and executing brokers.

Last, but not least, we expect to see continued growth in our ISO 20022 funds messages, which are now being adopted across the globe for diverse product types including money market, pension and mutual funds.

SWIFT is committed to serving the industry and helping it meet the increasing challenges that it faces in these tough times. We look forward to continuing in this close partnership, and to ensuring that 2009 is a year of success for our community.

Jean Sonnevile

One of the key values of SWIFT is to act as a place where our community can share their views.

Jean Sonnevile, head of investment managers market, SWIFT



Increased regulatory pressure prompted by the global financial crisis is set to drive change in the OTC derivatives

business, creating a requirement for more transparency. Buy side firms will need greater automation and scalability for processing OTC derivatives in order to cost-effectively handle this change. This was one of the key messages for delegates at a London briefing hosted by vendor SmartStream on 5 November, entitled OTC Derivatives: Driving down the cost of post-trade processing. SWIFT was invited as a guest speaker to introduce its Derivatives solution.

The purpose of the briefing – which, with some 50 attendees, was over-subscribed – was to offer the participants insight into how to “build a path to achieving STP in derivatives operations”.

The need for automation

SWIFT’s Derivatives solution is designed to enable buy sides – and their counterparties – to reap the benefits of STP by replacing manual processes with secure electronic messaging.

Speaking at the London event, SmartStream’s Jake Sweeney contended that buy sides want to invest more extensively in derivatives, but have historically been limited in their ability to do so by the lack of availability of end to end processing solutions. To meet tighter risk management requirements going forward, investment managers will have an even greater need to ensure they have scale and operational efficiency in place to support their ambitions for OTC derivatives investments.

A recent SmartStream-sponsored research paper from analyst Celent confirms that, because of a lack of automation, the ongoing growth in derivatives transactions is adversely impacting the operations of buy side firms. To deliver greater operational

Buy-sides' need for derivatives STP is growing, London seminar finds

SWIFT's Derivatives solution is presented as part of the way forward at a SmartStream briefing

efficiency, the report argues, new and improved technology solutions are needed to deliver the appropriate architecture and components, and provide a path to STP for investment management firms.

At Sibos in Vienna in September, SmartStream launched a solution designed to meet this need – TLM Trade Process Management for OTC Derivatives. One of the features of this solution is the capability to generate and process FpML messages.

During the London briefing, Marie-Paule Dumont, market manager for pre-settlement programmes at SWIFT, explained how SWIFT's Derivatives solution is also supporting the growing requirement among buy side firms to improve STP for OTC derivatives. The Derivatives solution is enabling investment managers to streamline their OTC derivatives processing by replacing high-cost, high-risk, fax-based communication with standardised electronic messaging over SWIFTNet – specifically for notifications of OTC derivatives trades between investment managers and custodians.

Significantly, SWIFT's Derivatives solution is based on FpML (the industry-accepted standard for derivatives, spearheaded by the International Swaps and Derivatives Association (ISDA)). As Dumont pointed out, SWIFT offers the same level of validation for the FpML messages on SWIFTNet as is offered for FIN and ISO 20022 formatted messages.

This means customers of the Derivatives solution can both use the industry standard for derivatives, and also leverage all the benefits of SWIFTNet, such as security and resilience – while at the same time maximising their return on investment in their existing SWIFT infrastructures.

“SWIFT continues to work with several partners to promote our Derivatives solution,” says Anthony Lavore, Partner Management at SWIFT. “This event is a perfect example of the collaborative approach we are taking, engaging at an industry level with our partners to address issues which are highly relevant to our customer base.”

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Anthony Lavore, Partner Management at SWIFT

The customer viewpoint

Among the investment managers taking advantage of SWIFT's Derivatives solution is BGI. Says Steve Goswell, director, BGI:

“BGI's long awaited go-live on the SWIFT Derivatives solution arrived on 13 October 2008. This solution gives us similar levels of predictability and scalability for our OTC products to that which we have become accustomed to in the FIN world. For this first release we implemented two relatively low volume products with one fund accounting provider. We expect this to ramp up quickly as we look to roll out the higher volume IRS and CDS products in Q1 2009. We also expect to be able to leverage this solution with other providers and indeed we are already in discussions with two other banks.

“Going forward, we expect the Derivatives solution to be a standard offering for all global custodians and large fund administrators. We expect that this critical mass of users will demand more predictability around the message maintenance process, and we believe that this solution is a baby step towards realising the Standards Roadmap outlined by SWIFT, FpML, FPL and ISITC earlier this year.”

Key driver for 2009?

Risk management, risk management, risk management!

TowerGroup tells it like it is at SWIFT's Investment Manager – Broker/Dealer Roundtable in New York



Dayle Scher, TowerGroup

The investment management industry will be shaped by some powerful drivers in 2009 – including the upheaval in the credit markets, an increased focus on risk management, the likelihood of ‘over-regulation’, continued market fragmentation, continuance of alternative investment strategies (despite hedge fund industry consolidation), growth in global investing and a shifting in roles of its traditional service providers. This was the message from TowerGroup’s Dayle Scher to attendees at the SWIFT Investment Manager – Broker/Dealer Roundtable Meeting in New York in October.

Latest trends

Scher presented the findings of Tower Group’s annual Top 10 Trends for Investment Managers report at the roundtable, and offered the analyst’s insight into how investment managers will fare in the altered landscape of the financial industry. There will be some ‘winners’, Scher predicted, among them the concept of “enterprise data management”: 56 per cent of respondents to the survey on which the report is based said their firms are either currently using or

actively considering deploying a reference data management software solution.

Another strategic response from the investment management industry is likely to be a focus on automation of manual trade processes, the TowerGroup analyst predicted. Industry efforts to align around message standards will find favour in a risk-averse environment because they help to mitigate risks inherent in manual and proprietary transaction processing. A discussion among the group centred on the benefits of translation services to reduce reliance on proprietary standards.

There were also some negatives – including the fact that IT budgets for the US buy side will decline by 3-4% during 2008/2009, in contrast to the 5-6% growth predicted at the start of 2008.

But the single main message Scher conveyed was the growth in importance of risk management as a result of recent market events. And this theme of the need for better risk management practices – and the role automation of transaction processing can play in helping to mitigate risk – was echoed throughout the roundtable event.

SWIFT’s Jay Martin brought the attendees up to speed with SWIFT’s new pre-settlement matching solution for securities,

developed to meet a specific industry need to reduce the risk of settlement fails by enabling automated matching of global hedge fund trades between prime and executing brokers. The new solution will enable the matching of MT 515 confirmation messages on SWIFT’s established central matching system Accord – and is designed to address the significant cost of settlement fails incurred by the broker community due to a lack of automated matching in the context of escalating trade volumes.

Syndicated loans

Chris Childs of DTCC and SWIFT’s Randy Schafer (on behalf of Euroclear) presented the two providers’ respective solutions to bring greater STP to the syndicated loans business – another activity in which rising volumes are putting pressure on existing processing practices and creating operational inefficiencies and risks.

Brad Barton of SWIFT explained how SWIFT is supporting both industry initiatives to replace the fax with automated FpML messaging – building on the capability to carry validated FpML messages over SWIFTNet created to support SWIFT’s Derivatives solution, which went live in August 2008.

Sibos Fund and Investment Management Forum

In the eye of the storm

Delegates attending the Fund and Investment Management Forum at Sibos 2008 in Vienna in September found themselves part of a unique gathering, as all Sibos attendees tried to make sense of what the collapse of Lehman Brothers, literally on the eve of the conference, would mean for their industry. The global financial crisis permeated all the discussions during the event, and reinforced the value of coming together at what turned out to be a crucial turning point for the markets to share views on the future of the business and the likely impact of the crisis on the funds and investment management community.

Recent events certainly injected extra spice into the formal debate over the motion "Hedge funds are the root of all evil", during which Chatham House rules freed the proposers and opposers to pursue their arguments with considerable verve and wit, without any risk to reputation. The proposers of

I advocate a free market approach, but what I expect is more regulation.

*Susan Mangiero,
CEO of Pension Governance*



AP Kurian, chairman of the Association of Mutual Funds of India

the motion put forward some very valid arguments – that directional trading strategies deployed by hedge funds drive asset prices to extreme highs and lows ("their hot money flows are having a dramatic impact on asset prices and the economy at large"), and that hedge funds have been slow to submit to the kind of regulation and control that governs traditional asset managers.

However, the opposers mustered a vigorous defence. Asked one: "Did hedge funds cause this? Did hedge funds cause property prices to fall?"

What has technology ever done for us?

During the Sibos Fund and Investment Management Forum session entitled "Hedge funds versus investment managers – when two worlds collide", panellists explored the similarities and differences between alternative and traditional investment styles, the increasing overlap between them and the processing challenges involved in servicing both types of business.

Asked by moderator Bill Gourlay, regional head of Funds at SWIFT, about the role of technology in helping firms manage the investment and operational risks associated with alternative strategies, Markus Reutimann, COO of Schrodgers, told delegates technology is crucial, but not the whole answer. "For service providers, there is definitely an opportunity as the two businesses consolidate, but it could be quite difficult for them to bring together both the technology and the expertise to cope with our new modus operandi," he said.

Did we force regulators to turn a blind eye to the toxic waste on banks' balance sheets?" And another pointed out: "Hedge funds just prick bubbles. Without hedge funds, the bubbles would just get bigger."

In a session on whether regulation helps or hinders the funds industry, Susan Mangiero, CEO of Pension Governance, pointed out that in many ways such a debate was academic. "I advocate a free market approach, but what I expect is more regulation," she told delegates.



Mattias Bauer, chairman of EFAMA

AP Kurian, chairman of the Association of Mutual Funds of India, urged “regulatory activism”, and suggested “whether it had survived the test of a crisis” as a metric for the success of existing regulation. Mattias Bauer, chairman of EFAMA, made the point that it is essential that “regulators... ensure they create a level playing field between products, with no regulatory arbitrage” – a goal that is often not attained, according to EU Consumer Representative Mick McAteer.

Pension worries

The question of “Where is my pension?” kicked off a discussion, moderated by Edward Glyn, director, Funds, EMEA at SWIFT, about the worrying state of global pension provision. One of the key messages to come out of this session was that there is a need for greater disclosure and transparency.

A session entitled “The battle for funds distribution” sought to address the question of whether independent advisers or banks would prove to have the most appealing proposition for funds investors. As Thomas Marsh, director at research firm Cerulli Associates pointed out, investors “want someone that can provide you with... safety, and someone you know is going to be around”.

Support for institutional investors in China

SWIFT’s new Shanghai office targets greater processing efficiency



On October 28, SWIFT opened a new regional office in Shanghai. “China is a market on which SWIFT has placed

great importance,” says Ian Johnston, head of the Asia Pacific Region, SWIFT.

The Shanghai office, located in the Lujiazui financial district, will be SWIFT’s third in China after Hong Kong and Beijing. The new office has been established to cater to the growing needs of QFII (qualified foreign institutional investors) and QDII (qualified domestic institutional investors) active in the Shanghai securities market. The office is, however, staffed by a team with expertise across the full range of SWIFT’s solutions.

In opening the office, SWIFT is looking beyond the current global crisis to the longer-term needs and opportunities that the Chinese market will generate, says Johnston. “We can see the eastward shift in global economic and financial power,” says Johnston. “China is one of most important markets for us and the opening of the new office in Shanghai underlines SWIFT’s confidence in this fast-growing market, and belief that Shanghai will become a major financial centre in the future.”

SWIFT is also well placed to support regional initiatives in cross-border financial market infrastructure. With the growth of

institutional interest, both domestic and foreign, in Chinese securities markets, increased volumes are expected to put pressure on back-office capacity. Research by Deloitte on funds processing in two key European markets found that more efficient process flows could create a potential 30% reduction in funds transaction costs. It also found that automated funds transaction tasks could be performed with as much as 80% fewer staff freeing them to work on new services or focus on quality enhancement. “Every dollar the industry can save in distribution and operation cost is a dollar that can be passed on to the investor to enable greater competitiveness and ultimately returns,” says Eric Chua, who is heading up the new Shanghai office.

Growth prospects

Recent figures from the Asian Development Bank (ADB) suggest that despite the global slowdown, the region as a whole, ex-Japan, is likely to grow by 5.8% next year. The ADB’s 2009 growth forecast for China specifically is 8.2%. SWIFT’s Chinese community is growing notably, with 262 user institutions to date. SWIFT financial messaging traffic from China increased by 18.1% in the year to September 2008, and is expected to further accelerate in 2009.

SWIFT's Scottish Operations Forum

Continuing critical dialogue

Delegates in Edinburgh heard debates on OTC valuations, ETC, regulation and funds distribution



More than 100 delegates gathered in Edinburgh in November for SWIFT's Scottish Operations Forum. Attendees

from the investment management, asset servicing, banking, pensions and platform communities were treated to a series of lively debates about some of the key questions facing securities industry participants in the current environment.

The panellists in the session entitled 'The OTC Valuation Challenge' – Chris Sier of Alpha, Stephen Ingle of Bank of New York Mellon and Grant Chambers of RBS Trustees – explored what exactly needs to be done to meet the need for accurate, transparent pricing of complex instruments. Though in the wake of the recent financial crisis there has been a decline in OTC activity, the trend is still for funds to be more creative in the use of derivatives, and volumes will increase, so a solution still needs to be found to this challenge.

Basic infrastructure

Delegates heard that while it is not possible to future proof your business model entirely, the key building blocks of your infrastructure need to be a single central securities database, independent daily pricing governed by a clear structured pricing policy, with a standardised and tightly governed collateral management process.



Arguably, standards are only truly valuable if they can be deployed from the issuer through to the end investor's service provider, but getting the issuers engaged is difficult because there is a cost to change.



In the session on regulation, featuring Guy Sears of the IMA and Graham Laybourn of Baillie Gifford, it became clear that regulation hasn't been entirely successful so far – as the current crisis proves. Opaque bureaucracy still predominates, delegates heard – but the onus is on industry players to work collectively to influence the regulators and get to the solution they want.

Discussing the question, 'Can asset servicing be standardised?', Ross McGill of GlobeTax, Les Turner of RiskMetrics and Debbie Summers of State Street acknowledged that standards for electronic messaging to improve STP do exist, but their effectiveness is still hampered by issues of adoption and interoperability.

End to end standards

Arguably, standards are only truly valuable if they can be deployed from the issuer through to the end investor's service provider, but getting the issuers engaged is difficult because there is a cost to change. That said, one incentive to drive standardisation could be the \$1.2 trillion

out there in un-reclaimed withholding tax: better automation of tax reclamation would help to address the staggeringly high (93%) effective failure rate for tax reclaims today.

During the session on funds distribution – with speakers David Ferguson of Nucleus, Alan Keegan of Standard Life, Justin Meadows from My Treasury and Warren Gee of FNZ – delegates were told in no uncertain terms to "stop living in the old world" because "legacy will not survive". Industry players need to "really knuckle down and embrace open architecture".

The final session on matching and allocations in the ETC space saw Danny Gordon of Franklin Templeton and Kevin Colling of Citi recognising the progress made in the recent Prime Broker to Executing Broker initiative. Sponsored by the prime broker community, SWIFT has now been asked to provide solutions in this space. Terry McCaughey of the Securities Institute challenged the audience to make sure the industry continues to drive improvement in this space, rather than leaving the responsibility to the European Commission.

How can SWIFT help you?

SWIFT's value proposition for investment managers.

Investment managers are facing ever-increasing pressure to improve performance, reduce costs and reduce operational risk. As global markets fluctuate, so too does the volume of trading. Investment managers cannot, however, maintain the additional resources required for processing high trade volumes during periods of relatively low activity. SWIFT provides simple solutions to these issues. Automation is the key to cost reduction.

What we offer

- Standardised messaging across the trade and asset servicing lifecycle
- Lower costs through STP and channel rationalisation
- Reduced operational risk through increased control, security, and reliability
- Improved ability to comply with industry initiatives and regulations such as Giovannini and MiFID.

SWIFT's solutions for investment managers

Accord

Enables real-time matching and exception handling for foreign exchange, money market and derivative confirmations.

Corporate Actions

Enables and improves event communications between public companies and their stakeholders.

Derivatives

Enables automation for OTC derivatives transactions.

Funds

Covers account management, order flows, transfers and reporting messages on prices and cash forecasts, statements of holdings and statements of fund transactions. Major community initiatives are under way in hedge funds, pension funds and the Australian market.

Transaction Reporting

Following the completion of the development of ISO 20022 transaction reporting messages, further work is under way to raise regulator and market awareness of the new standards and of SWIFT as a secure delivery channel.

Proxy Voting

This solution covers the entire proxy voting lifecycle, delivering STP-ability between the issuers and the beneficial owner, and through all intermediaries such as custodians, exchanges, and proxy agencies.

SWIFT portfolio updates

Solutions

More than 200 firms are now registered to use the Funds solution, over half of which are either live or in test and training mode.

Our Derivatives solution – enabling automated notifications for OTC derivatives trades between investment managers and custodian banks via SWIFTNet in FpML format – went live in August 2008.

Accord, our established foreign exchange confirmation matching solution, is being extended to cover equities and fixed income. This will support our recently announced pre-settlement matching service for use by prime brokers and executing brokers to match securities trades originating from hedge funds globally.

Standards

Community representatives have approved a mandatory migration to ISO 20022 for funds by 2012. The industry-wide roll out of this standard will allow stakeholders to continue their automation of the key processes along the transaction chain. It will also attract new players without the legacy of ISO 15022, either via existing channels or the new Alliance Lite.

Four milestones have been set for the completion of the migration process. The first milestones concern the receiving end of the value chain (transfer agent and hubs). At the request of the community, penalties will be applied for parties not meeting the milestones. Intensive communication on the migration and the 'migration path' has already begun and SWIFT will be providing a toolkit to support and facilitate the process.

Messaging

The Simulation Testing and Qualification Service (STaQS) for Corporate Actions is now available. It allows you to test your Corporate Actions Notification and Confirmation messages (MT 564 and 566) for market practice compliance.

Connectivity

Alliance Lite is designed for firms exchanging fewer than 200 messages per day and was formally launched at Sibos in Vienna. The Internet-based connectivity option provides a direct, secure and low cost access to SWIFT. You do not have to install SWIFT-specific connectivity products at your premises. Instead, you can access Alliance Lite using a standard Internet connection.

At the other end of the connectivity spectrum, the latest release of Alliance Access can handle 1 million messages per day. The main benefits of this new interface for firms with high volumes are: scalability, availability and better integration with your back office. Alliance Access is available now.

Service

Our Training team are currently running two courses tailored to the needs of investment managers: Understanding Funds messages and flows and SWIFT messages for investment funds distribution.

Fostering the future of the French funds business

The valuable role of SWIFT in supporting operational efficiency and risk reduction in the funds business was highlighted during a wide-ranging roundtable discussion at the SWIFT business forum in Paris.



What needs to be done to position the European funds market – in particular the French market – for future international growth?

How can innovation be effectively promoted? And what is the best way to combat risk and ensure greater operational efficiency in the funds business? These were just some of the questions raised during a recent roundtable entitled ‘Drivers for European and worldwide funds distribution’, taking place at the fifth SWIFT business forum at the Cœur Défense in Paris.

The moderator Edouard de Lencquesaing, director, Netmanagers, facilitated a wide-ranging discussion, which began with a focus on what the French market needs to do foster innovation, and ensure support for new asset management companies with new ideas. Bernard Descreux, board member for Banque Postale Asset Management and president of DIAMS (Distribution and Integration for Asset Management System), described how Banque Postale Asset Management, a French domestic player, has formed Amlab, a company that helps “Gazelles” (new, small asset managers) create their first funds.

Smaller players also have specific infrastructure needs that must be catered to, Descreux said. “Asset managers

are expecting a solution to the logistics challenge,” he told delegates. “They are very attentive to costs and have very short time constraints. They require an infrastructure that answers these challenges. SWIFT will provide ‘easy’ access with Alliance Lite, which should provide some answers to the above.”

Improving automation

On the specific aspect of operational risk, Jean-Marc Eyssautier, CEO, CACEIS Bank France, said the ultimate objective must be to “reach a maximum of automation such as has been achieved in the equities and fixed income markets for some years already”.

He also highlighted the positive impact of Alliance Lite – which he said “will allow us to overcome the obstacle of manual operations which are still today the reality of small and medium players”. Jean Sonnevile, head of investment managers at SWIFT, told delegates that Alliance Lite creates the “ideal context” for asset managers to connect to SWIFT. “A number of technical complexities have been taken out of the equation by Alliance Lite,” he said, “like complex IT infrastructure installation and the know-how on standards by using simplified GUIs for manual entry and Excel files for upload/download of information. SWIFT will take care of converting this information into standard messages.”

Additional measures

But what else needs to be done to improve efficiency in the process of buying and selling funds, and how might the Fund Processing Passport (FPP) play a role? Yann de Saint Meleuc, general manager, Groupama Asset Management and president of the Infrastructure and Service Provider Commission at the Association Francaise de la Gestion Financiere, suggested that a “responsible standardisation process” undertaken by the community would ensure “greater interoperability” in the funds business.

Sonneville added: “The FPP will provide additional transparency on the market and also allow for more operational efficiency.”

Matthieu Pasquier, COO, Funds Distribution Services, Société Générale Securities Services, agreed there is “a growing need for more standardisation” – both to enable greater efficiencies, and to support the further internationalisation of the French and European fund businesses. “Automation is the panacea for reducing risks to a minimum,” he said. “However, a challenge is that different models are present in different markets, which makes attaining 100 per cent STP very difficult. The road to follow needs to be at the European level, if not worldwide, with ISO 20022, he concluded.

Standardisation and harmonisation by ESES

Charles-Raymond Boniver, manager, Ineum Consulting Luxembourg*

The Euroclear Settlement of Euronext-zone Securities, better known as ESES, offers seamless settlement for the Belgian, French and Dutch markets via a single harmonised service and is the second major milestone¹ of Euroclear's Single Platform (SP), aiming to provide integrated and harmonised services to the European market.

The French market migrated to ESES in November 2007 and the Belgium and Dutch markets will migrate on January 19, 2009. Since February 2008, ESES has also been connected to Target2 for payment instructions.

ISO standard connectivity

In bringing SP to the market, Euroclear has opted to deliver the Common Communication Interface (CCI) and to make standardisation of communication one of its key connectivity strategy components. Anticipating acknowledgement by both the industry and its regulators that no competitive advantage is to be gained from proprietary communication syntax, the Euroclear group decided to follow the Independent

Advisory Group recommendation for the removal of the Giovannini Barrier One² by using the data standards and syntaxes of ISO 15022 and ISO 20022.

The foundation of the ESES platform is the RGV 'legacy' system of Euroclear France. This brought with it certain communication constraints since this platform communicated using the RGV proprietary format. Euroclear solved this problem by providing a converter, through the CCI, allowing Belgian and Dutch clients to communicate using ISO 15022 messages. French clients may also switch from the RGV format and use ISO 15022 messages via the CCI. However, the converter has its limit and in some cases for, for example, the ISO 15002 messages will be rejected by the ESES system when those constraints are met. Only the local agents or the institutions that have direct access to the ESES platform will have to worry however; for the others, local agents will provide value added services for their international clients.

Some market specificities remain within ESES. For example, when sending a delivery transaction for all the securities with the CSD associated with Euroclear Netherlands, the field for the beneficiary client's account (97A) remains mandatory

as it is a matching criterion. Other specificities are being harmonised; for example, for the delivery of BE and FR securities, the safekeeping account of the client of the receiving agent will be a matching criteria when provided.

It is important that direct participants in ESES read the documentation Euroclear has made available on their web site. For other financial institutions dealing with the ESES markets through local agents, the SMPG has published a market practice guide. The document is posted on the SMPG web site³.

Conclusion

Even though this first migration requires numerous changes from participants, ESES is a major milestone towards harmonisation of securities settlement within the financial industry in Europe.

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¹ Euroclear had the SSE (Single Settlement Engine) migration in 2006 and early 2007 that was mainly technical with very limited impact on the Euroclear participants.

² The European Central Bank: http://www.ecb.int/paym/pdf/market/secmar/elimination_of_giovanini_1_final_protocol_recommendation.pdf

³ <http://smpg.webexone.com/r.asp?a=5&id=139218>

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Fund Forum Emerging Markets
2-4 March 2009, London

SWIFT Operations Forum Americas
17-18 March 2009, New York

Fund Forum Asia
27 April-1 May 2009, Singapore