

Investment Managers

on SWIFT



THE VALUE OF SWIFT TO INVESTMENT MANAGERS

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Bringing investment managers “peace of mind” in troubled times

Welcome to the first issue of *Investment Managers on SWIFT* for 2009.

The early months of the year, like the last months of 2008, have been far from easy for financial market participants. As well as grappling with the ongoing challenges created by the global financial crisis, the investment management community must also deal with changes being introduced to “fix” the industry – and prevent a repeat of the disastrous events that plunged us into crisis in the first place.

It takes no great insight to point out that better risk management capabilities will be a prerequisite for the future, nor that the regulatory framework underpinning our industry will become tighter and more prescriptive. As plans to improve transparency on the markets, including by bringing hedge funds more firmly under the umbrella of regulatory oversight, take shape, it is clear that investment managers of all kinds globally will be forced to step up their focus on compliance.

As the initiators of so much market activity, investment managers are dependent on many other financial intermediaries to provide support throughout the trade lifecycle. The question, “Who can I trust?”, becomes ever more pertinent as the shockwaves created by the financial crisis continue. Impeccable risk management will be the order of the day, and investment managers need to take the future of their own risk controls – for market risk, counterparty risk and operational risk – into their own hands.

At SWIFT, we are committed to enabling our customers in the investment management industry to benefit from our long history of supporting financial institutions in reducing



Fabian Vandenreydt, head of Investment Managers, Markets, SWIFT

costs and mitigating risks. We have a number of initiatives under way which we believe can bring investment managers “peace of mind” in these troubled times.

Our work with prime and executing brokers to provide trade-date broker-to-broker matching of securities trades initiated by hedge funds (based on our established matching application Accord) is an example of how SWIFT can help to minimise errors, improve operational efficiency, cut costs and reduce counterparty risk for the entire industry.

We are also working to support counterparty risk reduction in a number of other areas, including through our Collateral Management

solution and our initiatives to streamline firms’ connectivity and communication with central counterparties (CCPs) and enable intraday liquidity management.

Our strategy to hook up to the trading portals used by investment managers, to capture details of trades immediately post-execution for downstream processing, is an example of how, by working with us, buy side firms can access a single window on their post-trade messaging, and can rely on this process happening securely and efficiently over SWIFT.

The purpose of *Investment Managers on SWIFT* is to share with our buy side customers the benefits of SWIFT not just in our own words, however, but through the eyes of investment managers themselves, those firms that are already taking advantage of our portfolio of solutions, applications, standards and market practice, messaging, connectivity and services to reduce costs, mitigate risks and improve service levels.

In this issue, John Davis, managing director and co-head of global operations and administration for BlackRock, and Kathryn Beard, director, BlackRock Solutions, share their views on how SWIFT is helping their firm. We also bring you news of progress in funds automation by our customers in Asia-Pacific, as well as an insight into discussions at our recent SWIFT Operations Forum Americas (SOFA) event in New York. In addition, Patrick Curtin, our new head of securities initiatives, Americas, talks about his vision of how SWIFT can further help the investment management community.

I hope you find the new *Investment Managers on SWIFT* useful and interesting. If you have any comments on the stories this quarter, any ideas for stories for future issues, or any questions about how SWIFT can help your business, please email me at Fabian.Vandenreydt@swift.com. You can also join the dialogue at www.swiftcommunity.net/IMonSWIFT. I look forward to hearing from you soon.

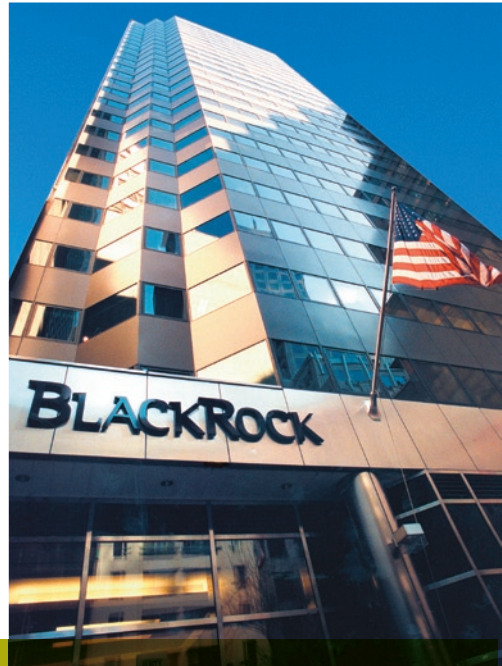
Fabian Vandenreydt, head of Investment Managers, Markets, SWIFT

Impeccable risk management will be the order of the day, and investment managers need to take the future of their own risk controls into their own hands.

Fabian Vandenreydt, head of Investment Managers, Markets, SWIFT

Raising the standard on risk management

Since its founding in 1988, BlackRock has become a globally renowned provider of investment management, risk management and advisory services to institutional and retail clients. As of 31 December 2008, its assets under management totalled USD1.31 trillion across equity, fixed income, cash management, alternative investment and real estate strategies. The Global Operations Group within BlackRock is responsible for the orderly execution and settlement of daily trading volume for BlackRock's assets under management. Here, John Davis, managing director and co-head of global operations and administration at BlackRock, and Kathryn Beard, director, BlackRock Solutions, discuss the challenges presented by the current environment and the opportunities resulting from standardisation.



Are there any operational challenges that result from the credit crunch?

John Davis: At BlackRock we have a strong strategic focus on centralising our whole investment management business on one platform. Through the mergers and acquisitions that BlackRock has done, we've always been very strong believers in having a highly automated, standardised and integrated process. We view that process as a core competency,

providing us with an operating advantage. It enables us to have complete information transparency globally across a number of complex products and different regions. We have consistent checks and balances.

The ultimate goal is to reduce operational risk. We view our role as being risk managers. During the financial crisis, we BlackRock *per se* did not learn anything new about what potential exposures could be, because we were already monitoring

them. But certain things did happen. The size of those exposures obviously became fairly significant due to the amount of trading activity. Secondly, the rate at which information was changing accelerated and we had to respond very quickly. We believe that being highly integrated on a single platform gives us an advantage in dealing with those changes.

Having said that, there were some key industry issues that came under the spotlight. One was counterparty exposure. For any firm, buy-side or sell-side, that should already have been a key control point. At BlackRock we had those oversight capabilities in place. Another was around straight-through processing (STP). There's a clear need in that environment for firms to have automated interoperability. That's where having all these SWIFT notifications in and out of our

If we don't have automated information flows... both in and out, then our operating performance will suffer even if we have full STP within the four walls of our company. That's where SWIFT plays a very big role.

John Davis, managing director and co-head of global operations and administration, BlackRock

firm is so important. Although we partner with SWIFT and are big buyers of SWIFT, we don't use SWIFT as the only solution. Certainly, SWIFT covers a vast percentage of our STP requirement and we would prefer one solution, because it makes the transaction process easier to manage. But we have a strong propensity towards end-to-end STP, whether it's via SWIFT or some other industry accepted protocol.

Do you view interoperability as an industry challenge or a company issue?

John Davis: From the time a new customer hires us, we start coding up the account. In general terms, the operating daisy chain involves executing, confirming and settling trades and then reporting back to the client. But what a lot of firms don't look at very aggressively is that efficient performance goes beyond their four walls. It involves communicating with the prime brokers that are supporting the hedge funds, it involves the administrators, the accounting agents and the custodian banks. If we don't have automated information flows with these organisations, both in and out, then our operating performance will suffer even if we have full STP within the four walls of our company. That's where SWIFT plays a very big role. BlackRock, being a highly automated organisation, has always been very focused on viewing our counterparts, whether brokers or custodians, as partners in that endeavour.

What we learned from our origins as a very institutionally focused company was that the fiduciary role that BlackRock had with a custodian bank was really a third party relationship. The client hired bank A and then the client hired BlackRock. We had to interoperate to support the client. There were no contractual obligations between the asset manager and the third party custodian. That's why protocols and standards were so divergent. Custodians and managers weren't working together to come up with one effective way to serve the same clients.

The approach we took at BlackRock early on, particularly in the fixed income space where there was not a lot of straight-through processing, was to form partnerships with the bigger banks. We said, "Look, we want to form a best practice approach to serving these institutional clients who are hiring us both."

The reality is that everybody wants to be more efficient. We translated all of these operational activities into cost and risk. If you talk to any client about cost and risk they're going to listen to you. The cost to support a mortgage portfolio is different from the cost to support an equity portfolio operationally. By creating those metrics and having that transparency operationally, you effectively get buy-in from the client.

As we started to do more retail and alternative wrappers, where we were the sponsors, we already knew which custodians could interoperate in the most

The BlackRock perspective

- A single standardised platform promotes information transparency across different products and regions.
- Automated interoperability among firms is essential for risk management.
- Investment managers and custodians should agree on how to work together to support common clients.
- STP rates in the industry are not as high as they should be.
- The industry needs metrics on message compliance.

effective and efficient manner. The more cost-efficient and risk-aware they become, the more comfortable we are hiring them for more mandates. That way, you end up solving a lot of your interoperability issues by having custodian relationships with maybe six to 10 banks – rather than 100 smaller ones.

Does the same apply upstream in the trade space?

John Davis: That hasn't been a challenge for BlackRock, because at the end of the day, we have the capability to translate inbound messages into SWIFT formats to send out. If I were to answer that question on behalf of the industry, however, I would say that many firms have not solved that problem. STP rates in the industry as a whole are still not as high as they should be for some of the basic products.



Everything you need to know about SWIFT – in one comprehensive reference guide.

Visit swift.com to download a copy of SWIFT for Investment Managers or contact your account manager for more information

STaQS: the beginnings of a “report card” for the industry?

SWIFT has recognized there is a requirement in the market to be able to analyse compliance of message use against not just standards but also market practice. Its response is the Simulation Testing and Qualification Service (STaQS) – first developed for testing compliance for SEPA (Single Euro Payments Area). Now, STaQS for Corporate Actions is available to support the SWIFT community in implementing and conforming to market practice for their use of ISO 15022 corporate actions messages.

Corporate actions messages that conform with market practices defined by the Securities Market Practice Group (SMPG) become more predictable and are easier for the industry to automate. STaQS for Corporate Actions eases the process of evaluating, self-policing and benchmarking compliance with market practice. By providing a single reference site for testing, STaQS enables conflicting interpretation to be kept to a minimum.

The service compares Corporate Action Announcement and Corporate Action Confirmation messages to guidelines defined by the SMPG: more than 38 markets actively contribute to the refinement and improvement of global market practice in corporate actions through the SMPG.

In the Q1 2009 issue of the sister publication to *Investment Managers on SWIFT – Asset Servicers on SWIFT* [email IMonSWIFT@swift.com to receive a copy] – two major banks, Bank of New York Mellon and J.P. Morgan, describe their experiences of using STaQS for Corporate Actions.

Amy Harkins is managing director of global corporate events worldwide at BNY Mellon, which was formed from the merger of Bank of New York and Mellon Financial Corporation at the end of 2006. As such, Harkins gets comments from all sides about corporate actions messaging from a variety of sources with

vested interests, and needed an unconflicted view to put everything in perspective.

“My goal with using the STaQS product was to give me an independent assessment of how I really am doing with SWIFT quality compliance of messaging, so I can go back and say, ‘I need these technology projects to be done,’” she says. “I was looking for independence because in the role I’m in, I’m getting a lot of feedback from legacy Mellon people, legacy Bank of New York people and clients. I wanted to do the right thing and make sure I’m industry compliant across the board.”

For J.P. Morgan, which after piloting STaQS has recently used the tool to assess its corporate actions messages, the independent voice of SWIFT was useful in persuading the bank’s management to invest in making important changes. Ted Rothschild, executive director, global market infrastructure team, J.P. Morgan, says STaQS allowed his firm to highlight where changes needed to be made and prioritise any adjustments by risk and difficulty to understand what needed to be done and when.

“We now know, from a neutral provider, how perfect or imperfect our corporate actions messages are,” he comments. “Now we have a tool with which we can go back to our senior management to explain the investment required to make improvements, and which provides chapter-and-verse data on exactly why and where changes need to be made.” He adds, “It gives us perfect, indisputable justification in asking for resources.”

Both banks agree that not only will the STaQS tool help with the compliance of their own corporate actions messages – it will assist in bringing the entire industry up to speed. “The industry has come to recognise within the corporate actions arena that SWIFT compliance means different things to different people, so I believe there is industry recognition that this is an important tool for us to move forward as an industry,” says Harkins.

Do you see your use of SWIFT as providing a commercial edge?

Kathryn Beard: We have a business called BlackRock Solutions through which we offer the systems and analytics developed at BlackRock to external institutions to help them understand and manage the risks and operational complexities inherent in their financial activities. We offer our SWIFT capabilities as part of a solution to many of the leading financial firms across the world. A lot of it is driven by the industry. We see particular opportunities in the areas of derivatives processing and corporate action messages.

Is there anything you’d like to see from SWIFT that would help you in that regard?

John Davis: There is one thing. Despite all of the firms who are involved in advocating the use of SWIFT as a standard, there really has not been any organised way of monitoring compliance. Once a standard has been implemented, how do we as an industry measure the efficiency with which it is being used by the participating institutions? If there is an industry-accepted SWIFT message, all of the participants assume, I believe incorrectly, that the problem is solved. If I’m getting thousands of SWIFT messages from a bank every day, but they go into a repair queue, that doesn’t solve my problem.

What would be helpful would be some sort of compliance audit. It’s a market practice issue. Let’s say, for example, that BlackRock or one of our counterparties was not sending information correctly, that even if it was in an accepted SWIFT format, the data components in the message weren’t exactly right. If we get a ‘report card’ that sets out who’s doing it right and who’s not doing it right, we could get together and talk about real world solutions. We want to understand what works and when it doesn’t, why.

We now know, from a neutral provider, how perfect or imperfect our corporate actions messages are.

Ted Rothschild, executive director, global market infrastructure team, J.P. Morgan

How can SWIFT help you?

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

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

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

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

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

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

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

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

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

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

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

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

SWIFT provides:

Solutions

For Corporate Actions, Derivatives, Funds, Proxy Voting and Transaction Reporting. Our solutions help you reduce your costs, mitigate your risks and increase your service levels.

Applications

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

Standards and market practice

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

Messaging

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

Connectivity

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

Services

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

Spreading the message

The majority of assets under mandate in the US are managed by members of the SWIFT community. But SWIFT has much more to offer investment managers than efficient settlement messaging.



Patrick Curtin, head of securities initiatives, SWIFT Americas

Is SWIFT happy with its levels of penetration among the investment management community in North America? “I’d say we have work to do,” comments Patrick Curtin, recently appointed as head of securities initiatives for SWIFT in the region. He points out, however, that SWIFT use among investment managers is often underestimated. “Around 80% of the assets under management in the United States among US domiciled bankers are already on SWIFT today,” he says. “That’s the good news. However, we have a tremendous opportunity to capture more of the ‘SWIFTable’ business flows.”

Curtin points out that while many institutions are using SWIFT for payments and securities messaging, there is a lot more that SWIFT can bring to the investment management community. “In

the present economic environment, even the traditional MT 540 series messages, the ‘settlement’ messages, can be seen as an important risk mitigation tool for those managers not yet signed up,” he says. “It’s an environment where knowing your trading counterparty takes on as much a risk management cloak as an operational cloak.” Meanwhile, those that are using SWIFT to transmit and receive securities settlement information could benefit significantly from extending that use into the corporate action messaging space as well as other trading areas such as commodities, syndicated loans and derivatives. “We have a lot of additional penetration to do and that’s part of what my team and I will be working on over the coming months and years,” says Curtin.

Part of the challenge, he acknowledges, is persuading people to do something on SWIFT that they are already doing in some

other way. “These are activities that are being carried out each and every day; this is what investment managers do in their middle and back offices,” he says. “But as an industry, we have not been able to slay the fax which still accounts for tremendous amounts of activity, whether it’s reporting for regulatory purposes, which is bound to increase in the current environment, or just the carrying on of day to day operations.” Much of this is still very manual. Greater use of SWIFT would add enormously to the efficiency of the industry as a whole, Curtin argues. “For that reason,” he suggests, “custodians and market infrastructures are all highly supportive of the investment community becoming more familiar with SWIFT and what it has to offer.”

The message is therefore twofold. “In a market environment that can move as quickly and ferociously as we’ve seen over the last six months, investment managers are certainly going to want to be able to monitor their investment activity intraday, if not intra-hour,” says Curtin. “Some managers are doing that by ringing their custodians and their brokers; that can be made much more efficient by the adoption of SWIFT.” For those institutions that are already using some message types, Curtin is looking to address their next pain points. ▶

Investment managers are certainly going to want to be able to monitor their investment activity intraday, if not intra-hour... that can be made much more efficient by the adoption of SWIFT.

Patrick Curtin, head of securities initiatives, SWIFT Americas

SWIFT is not alone in seeking to raise the level of automation in the investment management industry. "FIX has historically dominated the pre-trade and trade space and have done a great job there and SWIFT is more dominant in the post-trade space," says Curtin. "The broker/dealer community uses both SWIFT and FIX, but they do different things with each. Similarly, large investment managers that use both SWIFT and FIX are doing so for different business tasks." There are some investment managers that use their middle office to create a sustainable competitive advantage in their own business. "Those investment managers have really honed to a well-tuned science how they use SWIFT and how they use FIX and may even have built some middleware internally that helps optimise their business process," he points out. That said, SWIFT and FIX have been actively working together to maximise opportunities for interoperability, for example, through their collaboration on the investment roadmap and move toward the use of ISO 20022 and its single dictionary approach.

Curtin does not see his message as a tough sell. In the present environment, where all institutions are tightening their purse strings, he believes that those that have already made an investment in the SWIFT infrastructure are looking to leverage it beyond clearance and settlement. He notes, for example, that as the US Treasury's plan to encourage the trading of 'legacy loans' and related loan securities picks up pace, SWIFT has a whole series of messages, the MT 600 series, that is aimed at creating an efficient transfer of information for loans and loan-like securities. "Many of these assets are historically bought and held on the balance sheet of banks," he notes. "As they start to move around, SWIFT and other market infrastructures, DTCC in particular, can play an important role."

Automating the trade-flow for short-term funds

Through use of SWIFT, MyTreasury brings STP to money market fund investment.

Straight-through processing (STP) in the management of short-term cash and investments has taken a step forward through cooperation between SWIFT and MyTreasury, a multi-product, multi-bank, multi-currency platform.

MyTreasury, an initiative of ICAP, the interdealer broker, is designed specifically to meet short-term investment management needs. While it is initially aimed at European corporate treasurers, says Chris Burchill, managing director,

MyTreasury, "its capabilities are equally applicable to hedge funds and other asset managers as well". MyTreasury is licensed to operate as a multilateral trading facility (MTF) for distribution throughout Europe.

The genesis of the platform lay in the recognition of the fact that companies sometimes have excess cash that they wish to use more productively than simply keeping it in the bank. At present, says Burchill, corporate treasurers tend to concentrate on three main instruments for the bulk of their short-term cash investments: bank



We are using a configuration of current SWIFT message types to achieve completely seamless trading.

*Chris Burchill,
managing director,
MyTreasury*



The MyTreasury platform offers users full market transparency for all these instruments in US dollars, sterling and euro from the major European funds and banks, coupled with the ability to trade electronically and maintain fully automated audit trails.

Justin Meadows, head of business development, MyTreasury.

deposits; euro commercial paper; and money market funds (MMFs).

In making these short-term investment decisions, corporate treasurers typically work with a small number of relationship banks and a restricted number of instruments. Current working methods for obtaining information and doing deals are often based largely around phone and fax with the more recent, but limited, introduction of email.

“The MyTreasury platform offers users full market transparency for all these instruments in US dollars, sterling and euro from the major European funds and banks, coupled with the ability to trade electronically and maintain fully automated audit trails,” says Justin Meadows, head of business development at MyTreasury.

Through the use of SWIFT, adds Burchill, “We are linking up the user’s cash management bank, their treasury management system, the transfer agent and the custodian bank in an unbroken cycle. We are using a configuration of current SWIFT message types to achieve completely seamless trading.”

The MyTreasury model is based on full disclosure rather than on omnibus trading.

This has the advantage from the fund’s perspective of investor transparency. In the omnibus trading model, by contrast, individual investments are bundled together by the trading platform and invested as a lump sum. One of the main advantages of omnibus trading traditionally has been settlement efficiency with a single consolidated payment for multiple individual investments. MyTreasury took the position that to avoid losing transparency, it would support individual investments and automate the payment process with the use of STP to achieve the requisite efficiencies.

MyTreasury worked with SWIFT to ensure that it could deliver STP from execution through to settlement by appropriate use of SWIFT messaging. “Our platform sends off a SWIFT message to the fund administrator to process and we then get the SWIFT message back for the acceptance and confirmation,” says Meadows. “We’re also looking to get our end-of-day balances through MT 535s.”

On the client side for trade execution, there is no requirement for a direct SWIFT link since the platform is accessed over the web. However, MyTreasury is in the process of piloting a settlement system

with two large clients that will link the issue of an MT 515 trade execution message to the release of an MT 101 that triggers the payment process. “For that, the clients will either have to sign up for SWIFT’s Alliance Lite or they will have to be existing SWIFT members,” says Meadows. He notes, however, that one of the two pilot participants is already a SWIFT user and the other is “well down the road to being one”.

As far as the corporate treasury market is concerned, Meadows observes that while many are not yet SWIFT users, “virtually all the sizeable corporates we’re talking to are either actively engaged in a SWIFT project or are about to start one. That was one of the reasons we chose SWIFT. We wanted a non-proprietary solution and obviously SWIFT was a key contender.”

The present uncertain economic climate has actually worked in favour of the platform, which was formally launched in May 2008. “Our main focus is AAA-rated money market funds at the moment, though we’ll be introducing other funds in due course,” says Meadows. “As a result of the crisis, such funds have seen huge inflows of cash and so our volumes are constantly increasing.”

An Asian model for STP

Taiwanese market provides a bright spot for funds automation in Asia with SWIFT's Funds solution.

The recent take-up of SWIFT's Funds solution by more distributors in Taiwan, including First Commercial, Land Bank and Shanghai Commercial, offers a promising indication of where distributors and fund managers, working together with industry organisations and international standards, can make significant strides in automating a market and reducing operational costs. "In December alone, we saw these three new fund distributors go live with the ISO 20022 standards," says Jean Sonnevile, head of fund services, SWIFT. "This more than doubles the

total number of fund distributors live on our funds solution in Taiwan to five, with Taishin and Fubon Commercial Bank live since 2006. This sends a strong message that SWIFT and ISO 20022 are the way forward for this dynamic market, where 80% of funds are being distributed by local banks."

Sonneville argues that the STP initiative in Taiwan is critical in encouraging automation in the Asia Pacific region, as it establishes a precedent. "Due to the low subscription commissions and the high penetration of regular savings plans, Taiwan retail volumes are significantly higher than in other regions and it is a major burden for fund

managers if orders are sent by fax," he points out. "As the Taiwan market's appetite for funds continues to flourish, this SWIFT/STP initiative will be able to clearly demonstrate cost savings, risk reduction and scalability to other markets in the region that share the same dynamics."

Common ground

The ten major fund managers active in the Asia Pacific market have been working for the past two years to develop a set of common templates to make it easier for distributors to test and automate. In addition, they provide education and work with counterparties to agree on best business practices and address issues that impede industry progress. The Asian Funds Automation Consortium (AFAC) has been leading the effort to drive straight-through processing initiatives in Asia Pacific, including recommending the use of SWIFT's ISO 20022 compliant funds messages. Most recently, they have worked with SWIFT to improve the



We're working together as a group to define common STP strategies for each country to make it easier to build consensus and acceptance by a market.

Dean Chisholm, regional head of operations, Invesco in Hong Kong and one of the founders of AFAC

handling of Taiwanese B shares (back end loaded transactions).

“We’re working together as a group to define common STP strategies for each country to make it easier to build consensus and acceptance by a market,” says Dean Chisholm, regional head of operations at Invesco in Hong Kong and one of the founders of AFAC.

AFAC in turn co-ordinates closely with FINDEL, the group of European fund managers that also has as an objective to encourage automation for cross-border funds. “Banks such as those in Taiwan dominate the distribution channels in many Asian countries, including Hong Kong, Singapore, China and India,” says Kathy Shackle, director of B2B automation program, Europe, Fidelity International. “As fund managers, we have to work with these banks and make sure that we have common ways of working together. By agreeing on the use of SWIFT’s Funds messages, we’ve taken a major complication – and cost – out of this market.”

Brian Kusunoki, regional manager, SWIFT, agrees that the Taiwanese model is indicative of the best way for fund managers to work with distributors in Asia. “The value of a consortium such as AFAC with a common plan eliminates much of the confusion for distributors in these markets,” he says. “Most of the markets in Asia have been focused domestically, with large local banks as the prominent distributors. Many of these are unfamiliar with the benefits of automation for cross-border flows and SWIFT. AFAC’s efforts have given these local banks significant reassurance that by embarking on an ISO 20022 automation project, there will be relative certainty of outcome. This is usually the biggest hurdle that must be overcome.”

SOFA 2009: Cost control and risk mitigation top the agenda

The question of how to leverage infrastructure investment to improve operational efficiency is key, speakers say.



The topics of cost control and risk mitigation took centre stage during the recent two-day

SWIFT Operations Forum Americas (SOFA) 2009 conference. The 280 SOFA delegates heard from a range of industry experts about the impact of the financial crisis and the response required.

SWIFT chairman Yawar Shah highlighted early on the theme of improved operational efficiency, saying: “There are some fundamental questions we need to ask ourselves at this time, such as, are there things that SWIFT could be doing more efficiently on behalf of the industry?”

A number of SOFA speakers identified operational efficiency as a prerequisite for dealing with the

fallout of the crisis. “We’re focused on creating solutions that will help our clients reduce costs, manage risk and grow their business,” said Neeraj Sahai, managing director, global head of securities and fund services, Citi. Added Michael C. Bodson, DTCC executive managing director, business management and strategy, and chairman of EuroCCP: “At the DTCC, we have seen an increased focus on cost control and risk mitigation.”

Inevitably, there was analysis of what went wrong. “We moved so far away from the reality of the economy that the leverage was out of control,” said George Doolittle, managing director, head of global payment services, Wachovia Bank, a Wells Fargo company. Scott Sandler, managing director,

We’re focused on creating solutions that will help our clients reduce costs, manage risk and grow their business.

*Neeraj Sahai, managing director,
global head of securities and fund services, Citi*

securities operations executive, J.P. Morgan, added: “We should have moved faster and more decisively with regards to validating pricing of assets used to collateralise lending.”

But speakers also identified promising avenues for progress. “We see opportunities around controls, pricing and economies of scale,” said Sandler, who also pointed to collateral management as one area in which the industry could improve. For Bodson, “one of the lessons learned” is that “infrastructure organisations like DTCC can provide effective tools for measuring and mitigating risk to members and threats to the stability of the financial system”. The question, he added, is how to capitalise on the inherent strength of the industry’s

infrastructure and the resource investment already made to help the industry respond to ‘systemic’ oversight challenges that regulators will seek to address – and to do so cost-effectively.

David Pryce, managing director, SWIFT Americas, outlined SWIFT’s 2009 priorities for the region – among them working more closely with market infrastructures and extending the cooperative’s reach by meeting the needs of existing and new users, including in the investment management community. Pryce reinforced SWIFT’s commitment to reducing costs and encouraged discussion of how SWIFT can further reduce total cost of ownership (TCO) to support its customers. “SWIFT enables industry-wide STP and remains the platform for growth,” he said.

In addition to the industry-focused plenary sessions, SOFA offered attendees the opportunity to learn about SWIFT’s portfolio through a number of work sessions. Anthony DePalma, senior vice president, Brown Brothers Harriman, commented: “The asset servicing session enabled us to establish consensus among the



Yawar Shah, chairman, SWIFT

participants to prioritise an industry-wide solution for corporate actions.” He pointed to agreement on the need to influence the issuer community to embrace XBRL prospectus reporting and establish a unique reference ID for new events which, he said, “will transform the existing process”.

SWIFT enables industry-wide STP and remains the platform for growth.

*David Pryce,
managing director,
SWIFT Americas*

Meet SWIFT – upcoming events

15 April, 2009	SWIFT Business Forum – Singapore	Marina Mandarin
27 April-1 May, 2009	Fund Forum Asia	Shangri-La Hotel, Singapore
5 May, 2009	Fund & Securities Forum – Hong Kong	Conrad Hong Kong
8 May, 2009	Fund & Securities Forum – Taiwan	Taipei
22-25 June, 2009	19th Annual FundForum International	Monaco
14-18 September, 2009	Sibos	HongKong