



European
Mutual Fund
Trading and Settlement

ISSA ROUNDTABLE
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Agenda

- Key trends in the European mutual funds industry
- Main issues
- Solutions/role of (I)CSDs



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Key trends in the European mutual funds industry

- ▶ Growing use of mutual funds in Europe
 - Households as investment vehicle for retirement
 - Institutional sector (funds of funds, pension funds...)
- ▶ UCITS III provides a more favourable regulatory environment
- ▶ Funds distribution is evolving... slowly
 - Banks still dominate funds distribution (in-house products)
 - Open or rather guided architecture
 - Funds supermarket
 - IFAs still dominating in UK and developing in other markets (Germany...)
- ▶ High pressure on promoters' margins

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Main issues

Why has a simple problem become very complex to resolve?

- ▶ Market fragmentation
 - Distributors
 - Promoters
 - Transfer agents (TAs)
- ▶ Different market practices (CSD versus Registrar Model)

- Different dealing procedures per market, transfer agents, funds
- Still very manual order processing (phone, fax...)
- No central funds database
- ▶ ... still an immature industry for dealing, settlement, reconciliation and corporate action processing

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Solutions/role of (I)CSDs

Investment funds cannot be processed just as bonds and equities

- ▶ Investment funds is essentially a primary market
 - The issuer (fund promoter) is involved in each transaction
 - Securities are not fungible (different rights attached linked to specific distribution agreements)
- ▶ These differences require specific functionality
 - Full reporting of all securities movements between distributors/custodians and fund promoters/TAs
 - Trade date accounting
 - More complex account structure (lot accounting)
 - Adequate treatment of decimals

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Solutions/role of (I)CSDs

Assessment of available options

Direct automated links between distributors and transfer agents

- High investment cost > limited to major players
 - No centralisation nor standardisation
 - Limited cost reductions due to duplication of investments
- ▶ **Worst solution for the industry**

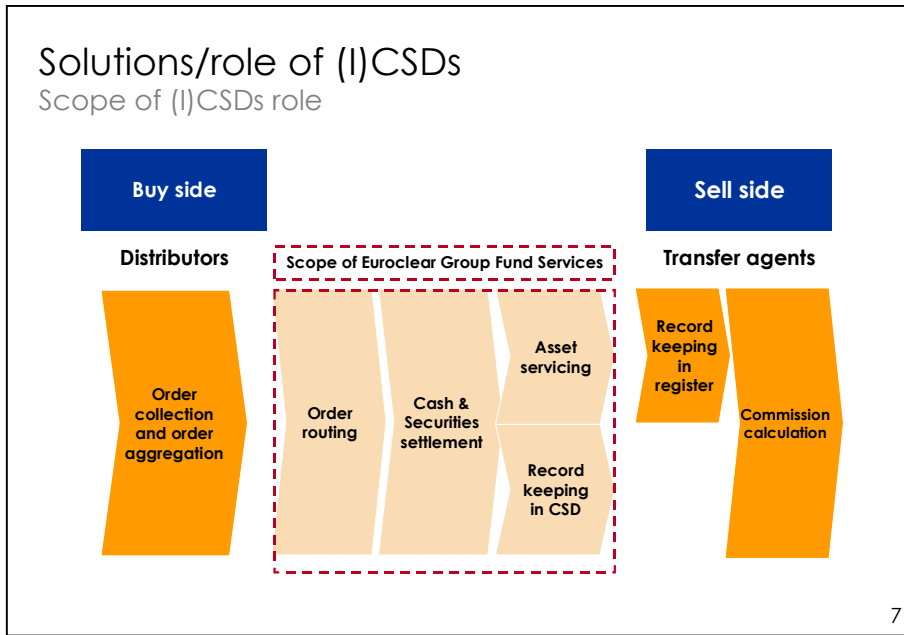
Messaging (routing) infrastructure

- Settlement, reconciliation and corporate action process is still very manual
 - Labour-intensive back offices and network management with TAs are still required
- ▶ **Partial solution only**

Fully integrated system/hub (routing, settlement, custody)

- No operational relationships between fund buyers and fund suppliers
 - No duplication of investments
 - Economies of scale
- ▶ **Substantial cost savings can be achieved for the industry**

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- ### Solutions/role of (I)CSDs
- A Pan-European offer covering the offshore and key domestic fund markets
 - A service that integrates the particularities of the investment funds market
 - While leveraging synergy with equity and fixed income processing (e.g. communication infrastructure (SWIFT), DVP mechanism, cash settlement...)
 - And act as a champion of standardisation and harmonisation on behalf of distributors through close cooperation with fund promoters and transfer agents
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