

Roundtable Discussion with Financial Instrument Data Providers March 7, 2008 in La Hulpe, Summary

Participants

Working Group Members:

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Background and Introduction

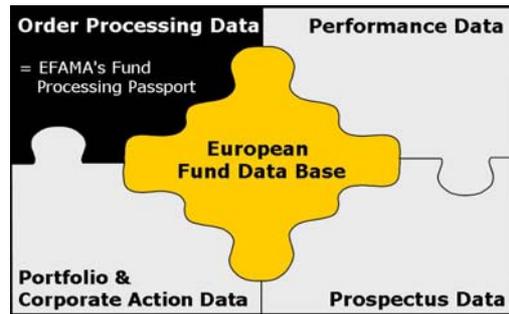
In December 2007, the ISSA Fund Working group discussed the EFAMA Fund Processing Passport (FPP) in the context of the need for an overall pan-European fund reference data base. Easy access to those data on a pan-European basis is a pre-condition for the wide circulation of funds in an open architecture.

Ideally, there should be one central reference data base for all funds registered for distribution in Europe.

"Central" should be understood in the sense of enabling institutional data consumers – market intermediaries in the business of processing fund orders, or distributors – to access the data base through a single window, irrespective of the physical location of an individual data set or the national organization of such aggregated data.

"Central" would also imply an overall architecture that minimizes redundancy, risk and therefore cost involved with maintaining the same data in multiple locations. The EFAMA FPP would be a core building block of such data base. In a later phase, other dimensions could be added to meet additional needs by diverse

stakeholders: The fund's Net Asset Value, performance data, fund portfolio data, corporate events data, the full prospectus, etc. Conceptually, this could be illustrated as follows:



The working group decided to invite the leading European data vendors and representatives from all parties involved in the fund order processing chain to an informal roundtable, to confirm the need for such a database, to explore the chances for success, and to define some high level guidelines to ensure implementation in the best interest of all stakeholders operating in a European cross-border market environment.

Discussion Points and Findings

A generic model for a "virtual central" database was sketched as the basis of the discussion. The two slides used in the meeting are attached in the Appendix. Below is a summary of the main discussion points and findings.

I NEEDS

1. The fund order processing industry needs and wants a pan-European fund data base

From the distributors' and the fund order processors' point of view, the process of funds distribution has two dimensions:

- On one hand, fund managers conclude sales agreements with distributors. A distributor then obviously knows where to obtain fund reference data.
- On the other hand, in an open architecture environment, where there is no ex-ante agreement between distributor and fund, distributors (custodian banks) receive subscription orders from clients for any fund, very often funds domiciled abroad. In this case, the bank first needs to locate the fund and all information required to process the order. Today, too many tasks to obtain those parameters need manual intervention or queries. With the growing popularity of cross-border investing, this scenario is becoming ever more frequent. More efficient ways are needed for accessing such parameters and feeding them into the distributor's internal funds information system, in order to automate the order processing function from end to end, and in order to assure the highest data quality.

2. Internationally active fund managers too, support a centralized data repository

Fund managers producing funds for distribution in multiple countries welcome ways and means that help their distributors and order processors to distribute their funds in a safe and cost effective manner. An easy delivery mode for the FPP is one important element. A precondition and the first step, however, is to establish an optimized mechanism to collect and compile those data. It would be particularly welcome if fund managers could supply their own fund data to only one, or a few collecting points, for onward dissemination into the market; as opposed to providing them to a separate data vendor in each country.

3. The data providers welcome a standardized format for the collection of fund data

For the existing data providers, the FPP is an opportunity to facilitate the collection of fund data in a standardized format, to assure coherence between those data and the equivalent data they maintain for other investment instruments. Under this perspective, they may become consolidators of FPPs, integrating the delivery of pan-European fund data into their overall service offering.

II AREAS OF AGREEMENT, COMMON BASIS FOR FURTHER DISCUSSION

1. The EFAMA Fund Processing Passport is recognized as the first major building block

There is consensus that the EFAMA FPP initiative is of great value to the industry and should be used as a major building block for a larger database. The scope of the FPP, does not cover all stakeholder interests. (It was never intended to serve that purpose. The FPP was specifically developed to facilitate one particular step in the fund processing life cycle.) The data providers present stated that the FPP contents represent around 5-10% of the total fund data universe. The remaining categories are mentioned in the introductory paragraph above. The industry's first priority is the creation and collection of FPPs on a national basis.

2. Each fund manager must designate a "Primary Provider" to create and maintain its FPPs

The initial production and subsequent maintenance of the FPP are critically important functions to ensure the success of the project. To that effect, each fund manager should designate one party who assumes this responsibility, referred to as the Primary Provider (PP). The Primary Provider is a third party which might specialize in collecting all FPPs in a local market. Obviously, FPPs may also reside on the website of the respective fund manager or its representative (transfer agent or *centralisateur*), for direct access by investors.

The Primary Provider's task is to make the FPP available to individual investors (institutional and retail) on one hand, and to the professional wholesale data vendors for onward distribution into the market on the other hand. In the model scenario sketched in the Appendix, those data vendors are collectively called Secondary Providers (SP).

To meet the needs of retail investors, publication of the FPP on a public website, perhaps in the format of an Excel table, will in most cases be sufficient. For the Secondary Providers, a more "industrial strength" mode of transportation is required. See point 4 below.

A strong appeal was made to all Primary Providers, to now strictly adhere to the FPP template as the one and binding standard, and to refrain from creating any sub-standards. Following a pilot period conducted in eight markets, there will be a second and improved version of the FPP, planned for publication in April 2008. This will be the definite template. Should any uncertainty or discrepancies arise, the national Securities Market Practice Groups should ensure its uniform application throughout the market.

3. Connecting existing infrastructures is preferred over building a new database

The large data vendors in Europe are already used to distributing data (including fund data) to their customers through different channels. Those data are usually collected from various countries. To that effect, the vendors have communication channels between them in place already; reciprocal client/supplier relationships are already well established. Against this background, it does not make sense to build a new central data base from scratch "only" for FPPs. The preferred approach is to improve and expand the existing infrastructures in a way so as to achieve a virtual central database, with multiple access points.

Likewise, the professional clients of the data vendors have no interest in building links to another data source. Ideally, they want to be able to obtain all fund data from the same source, and in the same format they already use to access all other financial instrument data.

Therefore, referring again to the model shown in the Appendix, the large data vendors may become Secondary Providers for FPPs. They add value to the market by assuring the best level of consolidation of such data, in response to their customer needs.

4. ISO 20022 is the preferred FPP delivery method to professional data consumers

Today, the data vendors obtain financial instrument data from their original sources, or exchange them with other intermediaries, in a variety of formats. Although the industry can live with the current situation, a further proliferation of standards is certainly not desirable.

The meeting participants agreed that, over time, the ISO 20022 standard (now in development for funds and the FPP process) is the delivery method of choice. A pragmatic best practice recommendation could read as follows: "The Primary Providers may choose to distribute the FPP data to the Secondary Providers in as many formats they wish, but ISO 20022 must be among them."

In this respect, several tasks have been agreed to be tackled by a SWIFT ad hoc working group:

- Translation of the FPP into ISO 20022 message format; target date for completion is July 2008
- Implementation of the new messages on the SWIFT network; in October 2008
- Definition of an end-to-end process (and the appropriate messages) to cover all types of "actions" that may occur between the different parties along the processing chain: Creation of an FPP, delivery of an FPP, partial update or modification of an FPP; and including the communication between fund manager and Primary Provider or end user, between Primary and Secondary Provider, and between Secondary Provider and end user. Further aspects to cover include the handling of cut-off times, data circulation on pull- or push basis, transmission of individual FPPs or data sets versus file transfer of multiple sets; and possibly other issues.

5. Pricing and other commercial issues to be left to the market forces to decide

The meeting participants strongly requested that all commercial and pricing issues should be left to self-regulation by the market forces. They saw no value in a best practice recommendation in this area.

That said, the industry is very interested in seeing pricing models that support the key objectives of the FPP, namely to create value as a sales tool to reach new investors, and for the custodians and other order processors to reduce their overall processing cost.

New and more cost efficient business models should emerge at the level of Primary and Secondary Provider to facilitate the dissemination of FPPs and their integration into existing service offerings.

Some principles for pricing models, based on current practice, were mentioned:

- Free or very low price access for end users requesting individual FPPs through a basic communication protocol (pull system)
- Higher price for access through a more sophisticated protocol
- Charges applied to the fund manager if active distribution is requested to a specified circle of recipients (push system)
- Secondary Providers may receive the data through a push, low cost mode based on a standard protocol. Neither pricing nor technical issues must hinder the FPP dissemination.

6. Liability issues must be clarified through robust Service Level Agreements

The FPP contains data which, should they be erroneous, entail a potentially high risk in terms of financial consequences. An example is the cut-off time for submitting orders. Service Level Agreements must clearly assign tasks and responsibilities to the parties involved. SLAs will be required on three levels: between fund manager and Primary Provider, between Primary and Secondary Provider, and between Secondary Provider and end user. In principle, on each level the degree of responsibility is in correlation to the difference in qual-

ity between data received and data passed on. Those are however classical issues in the financial instrument data industry. They are in no way specific to the funds area.

Overall Summary: Creating Additional Momentum for the FPP is a Key Priority

Irrespective of any steps taken towards launching a central database project, the immediate priority is to quickly boost the number of FPPs in use. EFAMA is very active in lobbying the fund managers. It would be helpful if ISSA, whose membership is heavy on custodian banks/distributors, issued a recommendation to exert pressure on those fund managers whose funds they are holding for clients, to complete FPPs as soon as possible.

Referring again to the "fund data eco-system" presented in the Appendix:

- **Layer 1** (Fund manager to Primary Provider) will find its momentum and architecture based on domestic or "multi-domestic" arrangements, driven by a market's local fund industry.
- Implementation of **Layer 2** (Primary Provider to Secondary Provider, or direct end user access) is a key condition to accelerate the dissemination of FPPs on a pan-European basis. In addition to various types of communication protocols already in use, a common industry-wide protocol based on ISO 20022 should be prioritized. The Secondary Providers should take a leading role in consolidating those data and the data delivery channels.
- **Layer 3** (Secondary Provider to end users) will leverage the overall value proposition of the FPP: It is here where the benefits of delivering fund data in high quality, in a standardized format in line with other financial instrument data; and making them accessible to end users through their existing channel of choice, actually and fully materialize.

Concluding Remarks

This roundtable was convened with a clear set of deliverables, but with quite a bit of uncertainty as to its chances for success. In hindsight, it proved to be a fruitful opportunity to exchange views across national markets and across the different service provider segments along the entire value chain. It certainly helped to better understand the needs, constraints and priorities of the different stakeholders, and to create a basic understanding of the vision behind this particular initiative.

Next Steps

Although not planned at this time, convening a similar roundtable again at a later stage is a possibility if found useful, for instance in connection with standards development, or to measure the impact of a new business proposal that might be offered by the data providers.

Special thanks to SWIFT for having hosted the roundtable at its premises.

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Appendix:

A Generic Model for a "Virtual" Pan-European Fund Reference Data Base

