

**International Securities Services Association ISSA**



# Mutual Funds

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**Trends in the Funds Industry**

From inhouse products	→	to open architecture
From domestic market	→	to cross border investment
From "Buy and Hold"	→	to active management
From in-house management	→	to private label funds managed by external partners
From occasional third party product processing	→	to high volume, manual, error prone, expensive handling
<b>From manager driven environment</b>	→	<b>to distributor driven environment</b>

**Have our processing capabilities kept pace with reality?**

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**Background and time line**

**2002** **ISSA 11: "The New Securities Landscape "**  
- growing importance of funds in Europe  
- open architecture, pan-EU distribution

**2004** **ISSA 12: "Trend accelerates! - Align funds processing to equity settlement!"**

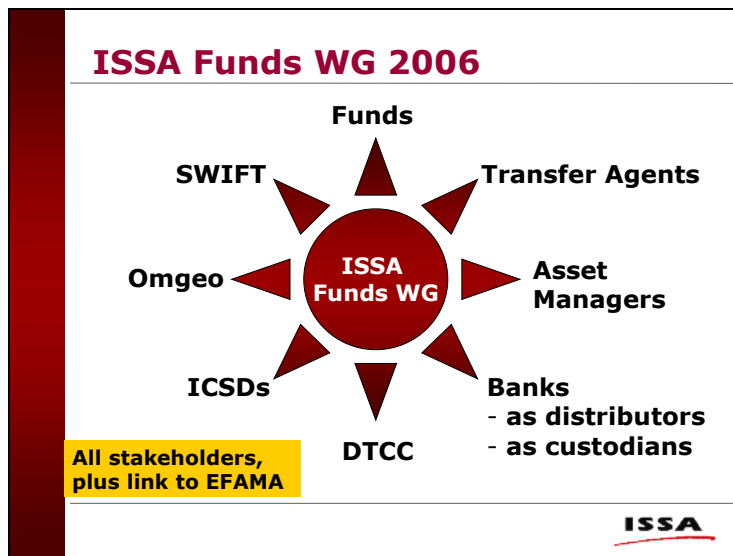
**2005** **ISSA Fund Roundtable in London:**  
"Need buy-in of all stakeholders"

**2005** **Contact to EFAMA established**

**2006** **ISSA Fund Working Group**

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### ISSA Funds WG 2006

<b>Fund Manager</b>	- DWS - Fidelity - Franklin Templeton - JPMorgan Fleming - Schroders
<b>Custodian &amp; Distributor</b>	- BBH - BONY - BNP P2S - Citibank - Credit Suisse - HSBC - KAS Bank - State Street - UBS
<b>Infrastructure</b>	- Clearstream - Euroclear - SWIFT - DTCC - SIS - Omgeo
<b>Transfer Agent</b>	- CACEIS Bank - RBC Dexia
<b>Trade Group</b>	EFAMA Funds Processing Standardisation Working Group

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- ### Current scope
- Plain vanilla funds,
  - Distributed in Europe,
  - Through distributors/intermediaries,
  - Cross-border business.
  - Buy side concerns
- Hedge funds & exchange traded funds
  - Direct relationship investor – fund/TA
  - Domestic funds distributed domestically
  - Sell-side concerns
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## Preliminary Findings

- Direct links to TA vs. central hub model
- One size does not fit all!
- One party's obstacle is the other's lifeline: sell side and buy side have conflicting views
- Many gaps and areas of improvement exist, irrespective of preferred processing model
- 10 barriers identified



## Barriers 1/2

1. Lack of harmonised information technology and interfaces
2. Lack of common identification and reference data relating to funds and to the counterparties
3. Lack of agreed-on process life cycle for subscriptions, redemptions and account transfers
4. Lack of ability to link the cash and securities leg in one transaction, and lack of clarity on finality
5. Know Your Customer (KYC) issues, existence of unregulated intermediaries



## Barriers 2/2

6. Complex fund features requiring account segregation, disclosure, reporting
7. Lack of standardised distribution agreements
8. Lack of standard processes to notify investors on changes to their investment schemes and on the distribution of entitlements
9. Lack of harmonised tax systems and tax processing requirements
10. Lack of standardized and efficient procedures to calculate and process trailer fees



### Next Steps

- Obtain feedback/input at ISSA 13
- Finalize interim report on barriers
- Propose action steps
- Find most appropriate body to tackle
- Publish recommendations at end 2006
- Extend to complex funds, hedge funds etc.

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