

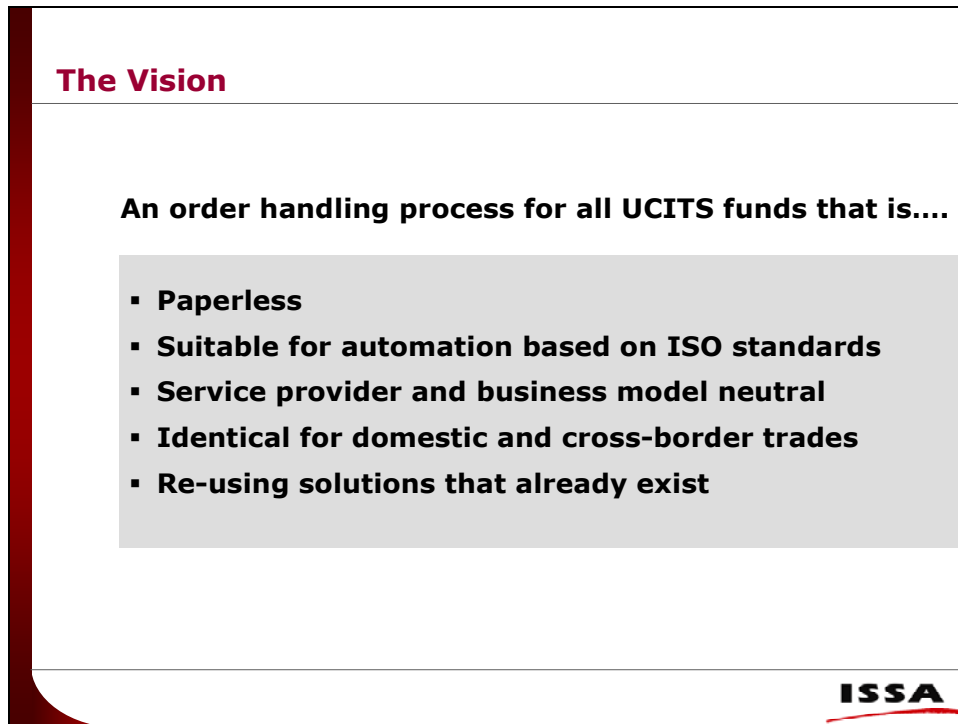


My brief presentation is mainly just a reminder, since the ISSA Fund Working group completed its mandate last October. However, I wanted to present this update along with the Corporate Actions WG to highlight two issues common to both:

They have shown our strength: Both working groups used a very similar set-up, working methodology and way of documenting the substance of their work and the conclusions reached. The same is also valid for the other two recent ISSA working parties that had looked into OTC derivatives valuation issues and the liabilities of a fund depositary, respectively.

After the successful completion of four projects in very diverse areas, we can conclude that our approach works. ISSA can indeed mobilize volunteer resources representing all world regions and all industry sectors – from within our membership, but also including interested guests. And we can produce noteworthy results.

But they also reveal a weakness: We need to find better ways to ensure our work is known beyond our membership and achieves the intended impact. I will come back on this point.



The Vision

An order handling process for all UCITS funds that is....

- **Paperless**
- **Suitable for automation based on ISO standards**
- **Service provider and business model neutral**
- **Identical for domestic and cross-border trades**
- **Re-using solutions that already exist**


















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I will not go into the details of the working group, but I would like to show that we used much the same concept as Ranjit just explained for the Corporate Actions WG.

This is the vision that guided the Fund WG group during the last two years. You recognize the elements "paperless processes" and "suitable for automation based on ISO standards". The last element, bringing proven, locally applied solutions into the limelight and recommending them for adoption on a larger scale, is probably the most important one and it was picked up by the Corporate Actions WG as well. The group worked on the premise that only the pragmatic leveraging of existing solutions would lead to success. Recommending revolutionary greenfield solutions would be a tempting intellectual exercise but would remain without any realistic hope for implementation.

In contrast to the Corporate Actions project whose scope is global, this one was a very European project in two ways:

- It aimed at improving the order handling process for plain vanilla (UCITS) funds distributed in Europe.
- On a more strategic level, it wanted to make a contribution towards integrating the European capital market in an area that is generally a bit overlooked. In most European discussions on clearing and settlement, the focus is first on equities, then on bonds, now on OTC derivatives, but hardly ever on mutual funds.

Working Group Members and Contributors			
Investment Manager	Custodian/Distributor Transfer Agent	Central Depository	Messaging Standards
   	      	  	 <p>Partner</p> 
			

These are the members and contributors to our effort. Again, there are parallels to the approach adopted by the other group:

The entire processing chain was represented and each firm belongs to the market leaders in its respective field.

We have a partnership with EFAMA. This proved both necessary and useful. EFAMA's background is stronger on the asset manager side. ISSA is more at home on the custodian and CSD side. Fund order processing affects both communities. So bringing the two sides together has created useful synergies. The Corporate Actions WG enlisted the help of ISMAG, the regional CSD associations and others we felt would be both instrumental and complementary to ensure success.

In an initial stage, we had DTCC on board. The US view and experience gave a welcome different perspective. It broadened the group's horizon, even though it was never the group's intention or ambition to recommend a single fund processing engine for Europe along the DTCC/NSCC model that operates very successfully in the US market.

The Fund WG built its guiding principles on bits and pieces that already exist. A number of valuable initiatives are already underway and in various stages of implementation. The goal was to bring them together and to use them as building blocks for a coherent and efficient target operating environment.

Important Building Blocks

Relevant industry initiatives and developments

- EFAMA Fund Processing Passport
- EFAMA FPSG work in general
- Dematerialising Mutual Fund Sales Agreements Initiative (DMFSA)
- Transfer of holdings best practice model (Findel Group)
- SWIFT's role in automating the funds - and the securities- industry
- EU securities market integration: TARGET2 Securities

Case Studies

- Domestic markets:     
- Crossborder solutions: - Euroclear FundSettle 
 - Clearstream Vestima+ / CFF 
 - ISO Standards

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The group, being composed of members from major European markets and of the operators of cross-border solutions, made and analyzed a number of case studies. Again, pointing out commonalities, highlighting the differences and identifying the best elements potentially suitable for global use, was the objective. That was time well spent.

We had two years of expert discussion, which resulted in a documentation of 150 pages. We distilled the essence into ten Guiding Principles. Everything can be found on the ISSA website. The final documentation was published in November 2009.

Ten Guiding Principles to Promote Efficiency

1.	Removal of paper in favor of STP processing, based on ISO standards
2.	Mitigation of financial and operational risk; a "DVP-like" process
3.	Clarification of account structures at all parties involved
4.	Key identifiers: Distributor – Order Sender to TA – Distribution Agreement
5.	Support commission reporting: order marking / position reporting
6.	EFAMA FPP – a key facilitator of efficient order processing
7.	Completeness of data transmitted through the intermediary chain
8.	Timely acknowledgment of order receipt and order execution
9.	Trade date based and settlement date based reporting systems
10.	Transfers of holdings to follow same principles: automation, identifiers

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This slide is the shortest possible way to summarize the critical areas that are covered in our work on a single page. Note that these are just bullet points, not the original wordings of the final Guiding Principles.

If these principles were consistently adhered to, we would have achieved the following:

- Aligned, to a large extent, the different market models in place in Europe;
- Made the fund order process more standardized, thus enabling more automation;
- Brought fund settlement closer to the equity settlement process, which had been the very original driver and call for action when ISSA's involvement in fund processing was first discussed in our 2004 symposium.



Coming to the end, I need to place my key message, which is also a concern of Edouard-François de Lencquesaing who chaired our group for the last two years.

The good work is on the table and it found much recognition. We had the opportunity of presenting the principles in a SIBOS session, and we used some other platforms as well. The European Commission and others commented very favorably on our work. But we need to find ways and means to do more to ensure that the results of joint industry efforts, such as this one, do not get filed away and forgotten soon after they are published. We need the help of our members to turn them into success stories and to keep them alive.

I want to share one excellent example for a great follow-up: one of our members – and a key contributor to our working group – assessed their own product offering against the ISSA principles. The analysis was then published on their website and distributed globally in the form of a client newsletter. At the risk of doing a commercial here, which we generally discourage during the symposium, the shining example was: Clearstream.

We do need more member-driven initiatives like this one to promote the achievements of our – actually your! – Association. The same goes for the OTC Derivatives Valuation principles that were published by ISSA shortly after the last symposium; same also for the excellent educational paper on the liabilities of a fund depositary that was submitted to the EU Commission last October in the wake of the Madoff case. That paper is very relevant now in the wider context of the AIFM Directive in Europe, and generally in the discussion about asset safety and how far the duties of a custodian can and cannot go.

So I would like to encourage you to, please, do let your inhouse staff, your clients and business partners know about your membership in ISSA and its projects, particularly if you were involved. And if you do take similar action like Clearstream just did, please let our board and secretariat know about it. We would love to share more success stories with our members!

Statements from the floor discussion:

- The famous 1989 Group of Thirty Recommendations provoked a strong and long lasting momentum, much of it generated and carried forward by ISSA. That should be a benchmark for our members if they find the results of our various recent working group projects relevant for themselves.
- It is crucial for the industry – especially at this time – to follow closely what the regulators are doing. A fruitful dialogue between market and public sector is more important than ever.
- ISSA usually makes recommendations for global adoption. However, we should do more to help the markets implement them *regionally*. Take for instance corporate actions: there is no global issuers' forum, but there is one on the European level. So, this is where action should focus. Where there is no useful regional point of entry, a market-by-market approach would be the logical answer. However, ISSA does not have the resources to do that.
- Suggestion: The ISSA website could be used more extensively as a central pointer to, and repository of, valuable work of relevance to the topics ISSA is engaged in.
- The corporate action work has shown a dilemma: Some of the big markets sometimes oppose best practice agreed by a majority of markets. Even if it is painful for them, they should accept that market size does not always justify holding a stance. Can ISSA play a role in facilitating situations that require a balance to be found between, as it were, the power of sheer size and weight, and what a large number of smaller markets may have agreed on as an acceptable way forward?