

International Securities Services Association ISSA

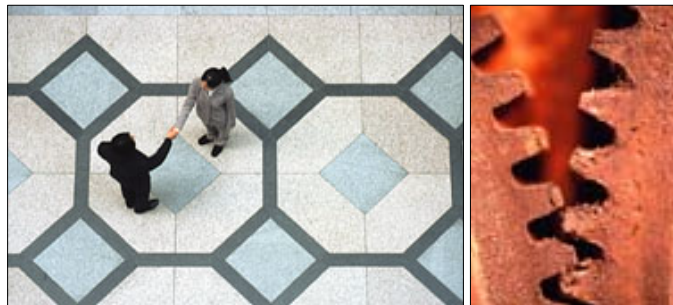


**Mutual Funds
Processing**

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Mutual Funds



**12th ISSA Symposium, 2004:
"Align funds processing to equity settlements"**



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
- **From manager driven environment → to distributor driven environment**

Have our processing capabilities kept pace with reality?

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Key Trends in Europe

- **Growing use of mutual funds**
 - by households as investment vehicle
 - by institutional investors e.g. Pension funds, funds of funds
- **UCITS III provides a more favourable regulatory environment**
- **Funds distribution is evolving... slowly**
 - banks still dominate (inhouse products)
 - open rather than guided architecture
 - funds supermarkets
 - IFA's (Independent Financial Advisors) dominating in UK and developing in other markets (e.g. AWD in Germany)
- **High pressure on promoters' margins**

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European Market Structure (1)

- **Post trade structures and problems**

- CSD, SWIFT, checks
- Book entry and/or physical
- DVP or free of payment

→ **No common post-trade model**

- **Business**

Assets and transaction volumes are in domestic markets.

There is no pan-European funds market yet.

But cross-border fund investing is growing.

→ **No common business model**

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European Market Structure (2)

- **Political issues**

- Trend to merge national financial supervisors structures into one or two per country. There were 33 supervisors for 15 countries in mid-2003.
- Supervisor's role is to control domestic banks, insurance and asset managers, and to protect retail investors

→ **Difficulty to drop domestic focus**

- **Regulatory Framework**

- Taxation
- Roles and responsibilities of regulators differ by market
- Distributors have varying legal constraints when dealing with retail investors


→ **No regulatory convergence in sight**

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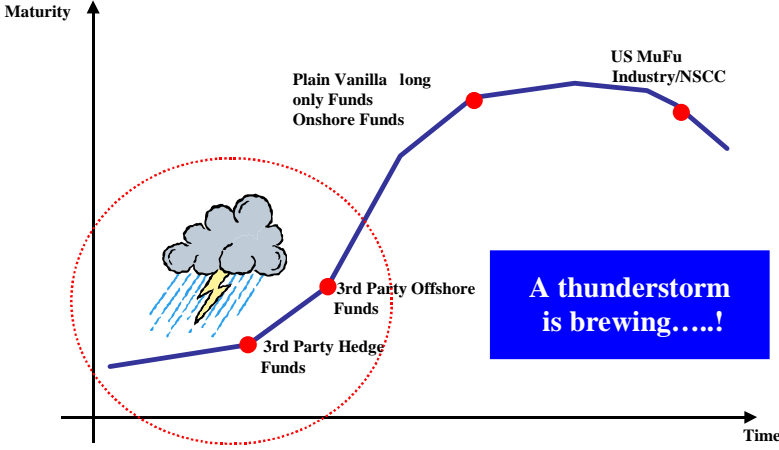
European Market Structure (3)

Pragmatic conclusion:

Many more years to a single and liquid pan-European market



Maturity of Fund Products



Maturity

Time


Plain Vanilla long only Funds Onshore Funds

US MuFu Industry/NSCC


3rd Party Offshore Funds

3rd Party Hedge Funds


A thunderstorm is brewing.....!



| ISSA Roundtable Participants | |
|--|--|
| Fund Managers | <ul style="list-style-type: none">• JPMorgan Fleming Asset Management• Schroders Investment Management• Investment Management Association |
| Custodians Distributors Investment Banks | <ul style="list-style-type: none">• BNP Paribas Securities Services• Citibank• Credit Suisse• Deutsche Bank• HSBC Securities Services• JPMorgan Investor Services• UBS |
| Infrastructure | <ul style="list-style-type: none">• EMX• FundSettle• SWIFT• Vestima |
| Not present: | Transfer Agents, IFAs, Trade Associations |



| Roundtable Observations |
|--|
| <ul style="list-style-type: none">• Problems differ by market.• Vested interests create inefficiency. Each stakeholder is both part of the problem and part of the solution.• Need minimal standards: ISO 15022, ISO 20022, EMX (in the UK market)• Need common processing platform, but how to attract volumes to target solution? |



Roundtable Conclusions

- Need to continue dialogue with all stakeholders.
- ISSA a welcome and viable partner, as our membership mirrors the value chain.
- No single best solution, range of options.
- Market forces will gravitate towards most efficient solution over time.
- Hedge funds and exotic funds to be addressed separately.
- ISSA to consider an endorsement of ISO 20022 for funds business.

The ISSA logo consists of the letters "ISSA" in a bold, black, sans-serif font. A red horizontal line is positioned below the letters, starting from the left and extending under the "S" and "A".

Next steps for ISSA

- Road map for the next 12 months (ISSA 13)
- Small group to look at conclusions, open issues, and to propose action steps
- Maintain and facilitate contacts
- Do not set up another competing forum, add value to existing initiatives
- Call on experts for issues requiring deeper analysis

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Questions for you

- Do you share assessment?
- Relevance to new EU member markets?
- Any other comments?

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