



Substantial progress is required in automation and standardization of all cross-border fund processing activities - order execution and settlement of transactions and commissions handling - to face up to increasing transaction volumes.

Investment funds are indeed a booming market in Europe and the volume of cross-border and third-party orders processed is developing strongly:

- At the end of 2006 € 7550 Bio were managed by approximately 31000 funds domiciled in the EU representing 34% of the worldwide fund industry and an 80% increase since 2003.
- Cross-border funds (ie registered in 5 countries or more) represented around 30% of net asset flows in 2005 and intra-EU cross-border fund transactions are considered to represent around 20% of total transactions in the EU.
- Third-party cross-border orders were evaluated to amount to around 27 Mio orders in 2006 for Luxembourg and Ireland – processed by TAs.

Although progress is being made through many industry-driven initiatives, the level of automation and standardization of cross-border fund processing still needs to be optimized to improve efficiency, scalability and risk management with rising volumes:

- At present around 50% of cross-border orders are automated, mainly through relationships between large players and a progressive penetration of processing hubs, both supported by the Swift network. Many small and medium sized distributors in particular remain to be automated to reduce average costs and risks¹.
- Standards are progressively being rolled out for order execution (ISO 20022) but standardization is still insufficient in settlement, asset servicing and commission handling. FPP (Fund Processing Passport) a common format for fund processing data defined by EFAMA is progressively being rolled out but with a relatively slow uptake.
- Total extra-costs for the market were evaluated to add up to 300 Mio in the main cross-border markets. Risks are also increasing with third-party distribution and orders of larger sizes. Manual orders are considered to cost 3 to 4 times more than automated orders to which should be added the potential cost of risks of orders of increasing size.

¹ Different automated solutions are adapted to small and medium-sized distributors: eg web browser solutions of Fundsettle and Vestima, Alliance Lite...

The major solutions required for improving cross-border fund processing have now been identified through the initiatives conducted by industry associations such as EFAMA and major industry players. They were completed and summarized by the Eurofi working group in 2007 / 2008²:

- **Reduce barriers to automated solutions for smaller distributors:** Communication actions to develop awareness of distributors of their costs and risks and of the qualitative advantages offered by automation ie more flexibility in cut-off time...; Incentivizing distributors to adopt automated solutions, if possible mutualized at market level, financed by a reduction of costs paid by promoters
- **Support the automation of cross-border order processing by a facilitated access to fund processing data (FPP) at an EU level:** FPP (Fund Processing Passport) imposed as a market standard with clarified responsibilities; An EU-level approach should be favoured in the maintenance of FPPs possibly through a common database or compatible interconnected local databases
- **Further develop standards covering all steps of the value chain:** Further standardization of messages, market practices and identifiers for order settlement (eg settlement deadlines aligned by asset class in the EU) and commission handling (eg BIC codes as common distributor identifiers); Commitment to a timely roll-out of standards
- **Improved local practices in the main markets distributing cross-border funds and clarified responsibilities in different market environments:** Improved risk monitoring of third-party TAs; Evolution of the role of centralizing agents in CSD countries and increased flexibility of CSDs in handling cross-border orders and transparency in costs, streamlining of practices in cash settlement (eg transparency of commissions, role of intermediaries...)

Now that the main issues have been identified and that many solutions and standards are on the table, the challenge ahead for the industry is their timely implementation. This requires building sufficient momentum in the market to achieve a critical mass of progress by 2011 ie around 70 to 80% of automation in cross-border fund processing.

² The Eurofi funds working group published at the end of 2007 a report for improving fund cross-border processing. The group involves Banks (BNP Paribas, Unicredit, Crédit Agricole); Asset managers (JPMorgan AM, Natixis Global Associates, Union Investment, HSBC IM, Allianz GI, CAAM); Processing service providers (Citigroup, Schroders, Société Générale Securities Services, CACEIS, State Street, The Bank of New York Mellon); Stock exchanges and hubs (Euronext, Bourse de Luxembourg, Euroclear), Swift

Agreeing on a common roadmap covering major actions for improving cross-border processing activities and setting up market-level governance would facilitate faster progress according to the conclusions of the Eurofi working group.

Market players are generally in favour of market-driven action for improving the efficiency of cross-border fund processing. But the fragmentation of the market with numerous players operating on each step of the fund value chain³ reduces its capacity to move fast towards common standards and to commit to their timely implementation. This can be illustrated eg by the relatively long process required to move towards common order execution standards (ISO 20022) or the differing choices made for FPP data maintenance by the different EU markets. In addition fund markets are structured in different ways across Europe with different processes, organizations and splits of responsibilities making the definition and implementation of common solutions complex.

This is particularly an issue for the cross-border and third-party markets which require common standards and a common approach since they interconnect many market players, evolve fast and are increasingly exposed to global competition.

Eurofi is therefore making the following proposals to facilitate and accelerate the implementation of the solutions proposed for improving cross-border fund processing:

- Market participants should commit to a **common roadmap for improving cross-border fund processing** on the different steps of the value chain with clear and commonly agreed objectives and milestones building on initiatives under way and tools for monitoring progress. Eurofi has made an initial proposal summarizing the main on-going actions that could enable to lead to 70 to 80% automation of cross-border transactions by 2011.

- A **common market governance body** should be set up - including senior representatives of all stakeholders positioned on the different steps of the value chain (asset managers, distributors, transfer agents, custodians, solution providers,...) - to ensure faster progress in the market: define common objectives and standards, monitor their implementation over time and reassess on an on-going basis the remaining issues to be solved. This organization should be set up with the support of existing associations to avoid any duplications and unnecessary reporting. Due to different interests of market players a neutral governance should be put in place with the ability to arbitrate diverging views.

Encouraging comparisons of best practices and features within the EU for handling cross-border orders and with the US (Fund/Serv) could help to identify priority improvement drivers to be further explored within existing market organizations.

³ No industry body regroups at present representatives of all major stakeholders and decision-makers. Distributors and the distribution arm of promoters are in particular not well represented in most processing-oriented discussions and are yet a major potential driver for progress. This reduces the ability for the market to commit to common objectives, monitor their implementation and arbitrate potential divergences.