



Transfers

THIS PAPER EXPLORES THE CURRENT ISSUES AND PROPOSALS FOR AUTOMATION.

Findel Transfers Working Group

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1. INTRODUCTION

The Findel Group is formed of asset managers focused on identifying common opportunities for operational efficiency in cross border distribution and where relevant recommending and promoting common solutions to the benefit of fund market participants and ultimately end investors.

In the current climate, Findel believes this mission is ever-more relevant because cross border firms are seeing significant growth in volumes each year with challenges created by manual processes and service gaps becoming more visible.

Given a regulatory environment that requires constantly increasing transparency and reporting, the impetus to address these gaps has never been stronger.

The aim of this paper is not to define a solution but to state the current issues experienced utilising the existing process and to attract submissions from industry partners with proposals to provide a common resolution that is both robust and efficient.

2. CHALLENGES

The members of the Findel Group have agreed that transfers of funds' shares is an operational issue experienced across the industry, therefore the group has decided to pay some attention to this topic and look at possibilities to solve the issue.

Why we consider the current situation is far from optimal?

The processes around transfers are different from one country to another and also differ between Transfer Agents (TA); this increases costs, risks and can lead to poor customer service. In a period where investors can do almost everything online and instantaneously, our industry needs to have a more robust solution for transfers instead of the existing process which incurs delays, risks and costs and possible claims. Therefore the Findel Group believe that changes need to happen imminently and support improvement in this direction.

The group has identified the following common issues:

1. Inconsistent practices across transfer agents – resulting from TA's own policies and procedures as well as regulatory. Both same and cross domicile transfers are affected.
2. Lack of visibility for intermediaries in the transfer chain.
3. Timeliness: time span can range from one day if the instruction is in good order to several weeks if insufficient information.
4. As an industry, the transfer process is not well understood as there are currently no standards/guidelines. Consequently, costs associated to transfers do not accurately reflect the high administrative effort required.
5. Business cases are difficult to build as processes, prices and technologies used are different from one provider to the other, from one market to the other.

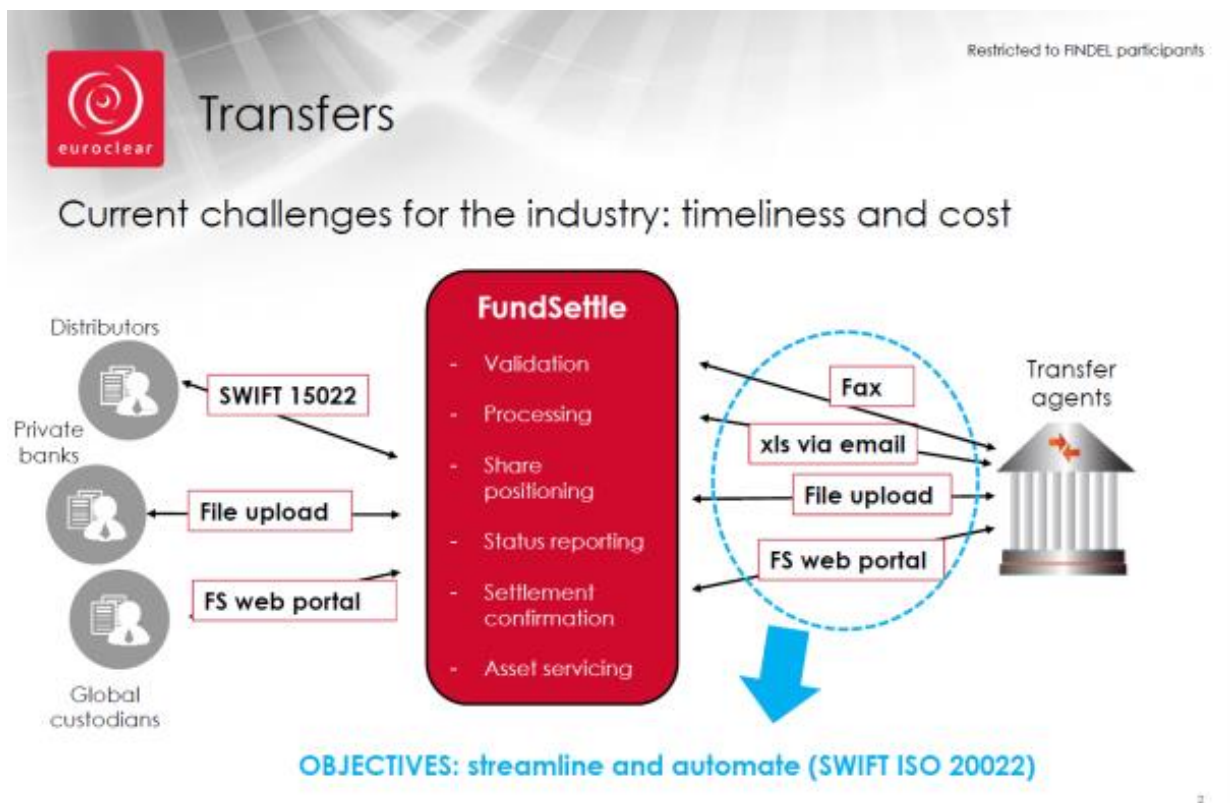
3. CURRENT PROCESS

Direct shareholder to shareholder transfers / paper:

- Uncomplicated and straight-forward with minimal intermediaries.
- Delays only occur because of missing account information or incomplete instructions.

Institutional transfers:

- Numerous activities need to be undertaken by a range of intermediaries to enable a smooth TA process to take place at the end of the chain. All these steps can be sources of risks and delays.
- Trading and settlement platforms such as Fundsettle, Vestima, NSCC have developed intra-transfer processes with benefits for them while efficiency is not met for market participants:
- Fundsettle ‘transfer-withins’ require the TA to manually mirror the activity.



- Clearing market ‘withins’ impact the TA as they involve intensive reconciliation efforts. Transfers between Clearstream participants appear through reconciliation breaks, not as transactions received by the TA.
- These platforms become additional burdens when inter-platform transfers need to be operated.
- Inconsistent processes

- Transfers placed solely on the delivering party's instructions:
 - expedite the operational side...
 - ...but frequently trigger queries on the service side (receiving party not able to apply the shares).
- Transfers placed with matching counterparties instructions (clearing market or not):
 - improve the communication aspect between counterparties...
 - ...but increase the administration effort.
- Regional differences: cross-regional transfers are often quoted as a cause of delay due to differing institutional models and lack of clarity across regions.

The Findel transfers working group has spent some time to assess the size of the problem as well as where the non-settled transfers are coming from.

Transfer turnaround times (retail and institutional blend):

- 88% are processed within 3 days
- 93% are processed within 5 days
- 96 % are processed within 10 days

Transfer volumes:

- Out of 20,500 transfers per month:
- 14,000 are reconciliation items for the Clearstream and Euroclear books
- 3,000 are institutional transfers
- 1,500 are NSCC automated transfers
- 900 have either side involving a clearing platform (with a retail or institutional counterparty)
- 600 are hybrid cross regional/cross platforms transfers
- 500 are pure retail transfers

The conclusion is that there is a clear need for more automation and standardisation and for a solution to be implemented cross border. Automation potential sits with the institutional transfers and represents 3,000 transfers per month, or 15% of our transfer volumes. We estimate that 85% of these volumes could be automated based on the clients that are currently SWIFT enabled.

Sources: Euroclear presentation

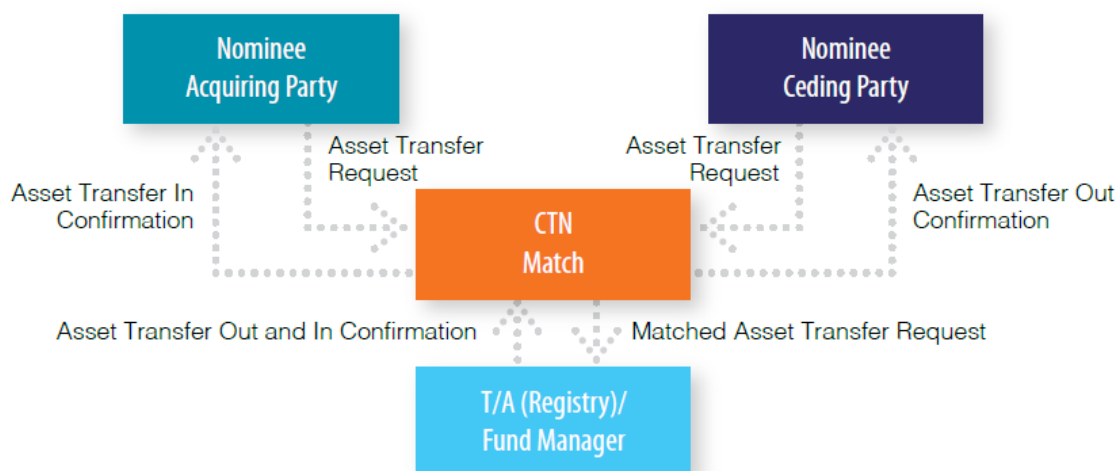
4. THE VOICE FOR AUTOMATION

Different solutions have been developed:

- The Luxembourg working group has produced a paper explaining how SWIFT could support the 2 leg transfer processes.
- The UK market has answered the transfers question by building a group of trusty counterparty (transfer club) in order to facilitate the settlement of such orders.
- Providers like Euroclear, IFSAM, Calastone have developed platforms to facilitate the transfers cross border.

How does it work?

There are a number of distinct steps in the transfer process, which pre-STP, created inefficiencies within the overall process. The diagram below provides a schematic overview of the operational model between participants.



The Calastone transfer solution gives all parties the ability to work together regardless of their own system capability.

Sources: Calastone Transfer Factsheet

The Findel group has asked Swift to freeze the standard for transfers in order to facilitate the adoption of the actual message type which could be use for 1 or 2 leg transfer. Having a common message over Europe to send and receive transfers would definitely improve the situation, motivate non automated player to move for automation.

In Luxembourg some transfer agents have adopted the single leg transfers for more than 2 years. They have reached positive results by drastically reducing their number of non-settled transfers by 80%. Focus now needs to concentrate on automating the remaining 20% which will continue to lead to enhanced client services, whilst allowing operational resource to focus on value added tasks as well as reducing costs.

5. OUR RECOMMENDATIONS:

1. Implementation of the single leg in 20022 format preferably without pre-matching (although pre-matching is not a major obstacle).
2. Freeze of the actual SWIFT standard 4,9 for continental Europe and 4,5 for the UK market for at least 3 years.
3. Ask ALFI to reopen discussion with Clearstream as during the last ALMUS/Findel working group meeting Clearstream and Societe Generale expressed their concern about the legal aspect of allowing a dump of shares on the transferee account at the TAs. The group is in the process of seeking opinions on this from both ALFI and CSSF.
4. Seek submissions from industry partners with proposals to provide a common resolution that is both robust and efficient, in order to ensure that our long term objective to agree a standard industry process that allows economies of scale in terms of shared operational services, enhanced customer experience and reduce costs.
5. Open discussion with authorities to support easy processes with push of assets and no originals required.
6. Open discussions with important distributors to encourage them to adopt the same solution.

6. IMPORTANT INFORMATION

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For any queries regarding this document, please contact enquiries@findelgroup.com

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