

**INVESTMENT FUNDS GLOBAL MARKET PRACTICE**

**RECONCILIATION STATEMENTS**

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| Changes to previous versions | | | |
| Version 0.0.0.1 | Draft | First draft | August 2011 |
| Version 1.0.0.1 | Final | Refinement of statement in Scope section (in italics) re application only to TAs  Changes to activity and sequence diagrams to reflect the fact that statement are more commonly sent at regular intervals per SLAs, rather than on request. | February 2012 |

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# INTRODUCTION

This document contains the global market practice guidelines for the interpretation and usage of ISO 20022 statement messages by the players in the international investment funds industry.

It serves as a reference for the work of Investment Funds Working Group (IFWG) of the Securities Market Practice Group (SMPG) and is intended to be considered as a basis for market practices in the investment fund business. The definition of such market practices is an important task of the SMPG. It is intended for:

Sell side

* Fund management companies
* Transfer agents

Buy side

* Institutional investors
* Fund platforms and hubs
* Custodians
* Distributors of investment funds

However, its primary purpose is to provide a reference source of the ongoing development of national market practices - implementers are recommended to refer to relevant local market practice documentation in the first instance. The document was prepared in consultation with the following countries and organizations participating in the SMPG IFWG

* Brazil (BR)
* France (FR)
* Germany (DE)
* Ireland (IE)
* Italy (IT)
* Korea (KR)
* Luxembourg (LU)
* The Netherlands (NL)
* Norway (NO)
* Spain (ES)
* Switzerland (CH)
* Sweden (SE)
* United Kingdom (GB)
* United States (US)
* Clearstream (XS)
* Euroclear (XS)

This is a living document and is subject to future revision and addition as global market practice develops and evolves.

The main goal of this collaboration is to increase efficiency in the process of distribution and settlement in the cross border investment fund business, and is designed to complement the domestic market practice documents in each market.

# SCOPE

The scope of this document covers the process of requesting and delivering investment fund holding and transaction statements using an automated messaging process. The recommendation of the SMPG is to communicate using the ISO 20022 message standard, which is non-proprietary and therefore network independent.

The process flows considered in this document are as follows:

* request for custody statement
* provision of custody statement
* cancellation of custody statement
* request for transaction statement
* provision of transaction statement
* cancellation of transaction statement
* associated status reporting

*Note that this market practice considers only the provision of statements provided by a fund manager or transfer agent, as the registrar of a fund. Market practice for statements sent by custodians and other account servicers downstream may be that created and maintained by the SMPG's Settlement & Reconciliation Working Group, which relates to different versions of the ISO 20022 messages and is applicable for any type of financial instrument (see* [*www.smpg.info*](http://www.smpg.info)*).*

Messages used

The following ISO 20022 messages are used in this market practice

CustodyStatementOfHoldings (semt.002.001.02)

CustodyStatementOfHoldingsCancellation (semt.004.001.02)

StatementOfInvestmentFundTransactions (semt.006.001.02)

StatementOfInvestmentFundTransactionsCancellation (semt.007.001.02)

SecuritiesStatementQuery (semt.021.001.01)

SecuritiesStatusOrStatementQueryStatusAdvice (sese.022.001.01)

The IFWG considered the merits of using the AccountingStatementOfHoldings message (semt.003.001.02) in addition to, or instead of, CustodyStatementOfHoldings, but concluded that the custody statement provided all of the necessary functionality. The accounting statement includes mandatory pricing and valuation data, which in some cases will not be required and can be provided optionally in a custody statement.

Definitions

For the purposes of this document the term ‘investment fund’ and ‘fund’ include typical mutual fund and collective investment undertakings, such as unit trusts, open ended investment companies (OEIC[[1]](#footnote-1), SICAV[[2]](#footnote-2)) and contractual funds (FCP[[3]](#footnote-3)). Note that although it may be possible for alternative types of fund, eg, hedge funds, to follow the market practice, but the IFWG has not attempted to accommodate these specifically.

Custody statement a statement of investment fund holdings at a point in time for one or more accounts maintained by an account owner with an account servicer, such as a Transfer Agent.

Transaction statement a statement of investment fund transactions passing through an account between two dates

Statement cancellation notification to the recipient of a statement that it should be disregarded, for example where it has been sent in error or is to be replaced by an amended version.

# ROLES AND ACTORS

This section describes the actors involved in the process outlined in this document, and the roles that they play.

|  |  |
| --- | --- |
| Receiving Party | Reporting Party |
| The party that requests and receives a statement - usually the account owner or their agent | The party that issues the statement, either at an agreed frequency or on request from the Receiving Party. |

| Actor | Description | Examples/synonyms | Typical Roles |
| --- | --- | --- | --- |
| Fund manager | The company that is responsible for the management and operation of the fund, eg, determines the investment strategy, appoints the service providers, and makes major decisions for the fund. It is usually responsible for promotion distribution and marketing of the fund. | Fund Company, Fund management company, Fund promoter | Reporting Party |
| Transfer agent | The entity that undertakes the execution of subscription, redemption and switch orders on behalf of the fund. |  | Reporting Party |
| Investor | The party whose money is invested. It can be one or more individuals or entities. |  | Receiving Party |
| Custodian | A party who holds the assets on behalf of an individual or institutional investor. They may be asked to send orders on behalf of the investor. |  | Receiving Party |
| Investment manager | An entity that may be appointed by an investor to make investment decisions on their behalf. |  | Receiving Party |
| Fund platform | An entity that collects and aggregates investor orders for placement with the registering party, and maintains the shares in its nominee account | Aggregator, consolidator | Receiving Party |
| Fund hub | An entity that manages and centralizes communication, settlement and coordination of individual orders among the various parties.  A Hub's can range from managed order routing to settlement and asset servicing. | For example Vestima, Fundsettle, etc. | Receiving Party |
| Distributor | An entity through which investors may buy or sell funds units. This may be on an advisory or execution-only basis. | For example brokers, financial advisors, and banks. | Receiving Party |

# ACTIVITY DIAGRAM

The following diagram provides an overview of the reporting process. The process is common to both custody and transaction statements.

Statements may be sent by the Reporting Party automatically at frequency or following specific events, as agreed between the Reporting Party and the Receiving Party



# SEQUENCE DIAGRAMS

The following diagrams describe the communication flows for the request and provision of custody and transaction statements. They illustrate the exchange of messages between the Requesting Party and Reporting for the full end-to-end process, including the cancellation and re-issue of an incorrect statement.

*Note that the Reporting and Receiving Parties will often agree that statements will be sent (pushed) automatically at a particular frequency or following specific events and, indeed, some institutions may not support the "pull" scenario. In the "push" scenario, the process will commence at step 3.*

# Custody Statement

This diagram describes the flow of messages with regard to the provision of a custody statement.



* + 1. Where the "pull" scenario is supported, a request for a custody statement is sent by the Requesting Party to the Reporting Party.
    2. If the request is not accepted by the Reporting Party, it sends a status message to the Requesting Party rejecting the request and specifying the reason for rejection.
    3. If the request is accepted by the Reporting Party, it sends the custody statement to the Requesting Party.

In the "push" scenario, the Reporting Party sends a custody statement to the Receiving Party at the agreed frequency.

Error scenario

* + 1. If the statement is found to have been issued in error or contains incorrect information, a statement cancellation message is sent by the Reporting Party to the Requesting Party specifying the reason for cancellation.
    2. If the cancellation is because the statement contained incorrect information, the Reporting Party sends a new custody statement to the Requesting Party.

# Transaction Statement

This diagram describes the flow of messages with regard to the provision of a transaction statement.



* + 1. Where the "pull" scenario is supported, a request for a transaction statement is sent by the Requesting Party to the Reporting Party.
    2. If the request is not accepted by the Reporting Party, it sends a status message to the Requesting Party rejecting the request and specifying the reason for rejection.
    3. If the request is accepted by the Reporting Party, it sends the transaction statement to the Requesting Party.

In the "push" scenario, the Reporting Party sends a custody statement to the Receiving Party at the agreed frequency.

Error scenario

* + 1. If the statement is found to have been issued in error or contains incorrect information, a statement cancellation message is sent by the Reporting Party to the Requesting Party specifying the reason for cancellation.
    2. If the cancellation is because the statement contained incorrect information, the Reporting Party sends a new transaction statement to the Requesting Party.

# BUSINESS DATA REQUIREMENTS

This section describes the business information that will be needed for the process to take place.

# Statement request

The SecuritiesStatementQuery message (semt.021.001.01) should be used by the Requesting Pasty to request a custody or transaction statement. For detailed global market practices please refer to: [SMPG(a)SecuritiesStatementQuery(Holdings).xlsx or SMPG(d)SecuritiesStatementQuery(Transactions).xlsx]

# Rejection of a statement request

The SecuritiesStatusOrStatementQueryStatusAdvice message (semt.022.001.01) should be used by the Reporting Party to reject a statement request when it cannot be complied with for business reasons. For detailed global market practices please refer to: [SMPG(b)SecuritiesStatusOrStatementQueryStatusAdvice.xlsx ]

# Custody statement

The CustodyStatementOfHoldings message (semt.002.001.02) should be used by the Reporting Party to send a custody statement. For detailed global market practices please refer to: [SMPG(c)CustodyStatementOfHoldings.xlsx ]

# Transaction statement

The StatementOfInvestmentFundTransactions message (semt.006.001.02) should be used by the Reporting Party to send a custody or transaction statement. For detailed global market practices please refer to: [SMPG(e)StatementOfInvestmentFundTransactions.xlsx ]

# Cancellation of a custody statement

The CustodyStatementOfHoldingsCancellation message (semt.004.001.02) should be used by the Reporting Party to cancel acustody statement that has been issued in error or contains incorrect information. For detailed global market practices please refer to: [SMPG(f)CustodyStatementOfHoldingsCancellation.xlsx ]

# Cancellation of a transaction statement

The StatementOfInvestmentFundTransactionsCancellation message (semt.007.001.02) should be used by the Reporting Party to cancel a transaction statement that has been issued in error or contains incorrect information. For detailed global market practices please refer to: [SMPG(g)StatementOfInvestmentFundTransactionsCancellation.xlsx ]

1. Open-Ended Investment Company [↑](#footnote-ref-1)
2. Société d’Investissement a Capital Variable [↑](#footnote-ref-2)
3. Fonds Commun de Placement [↑](#footnote-ref-3)