AU Funds Market Practice Group

Wednesday, 2 June 2010

Attendees:

Simon Basile APN Funds Management Limited

Craig Hjorring Ausmaq

Loraine Bunt Ausmaq

Chris Wray BlackRock Asset Management Australia Limited

Adrian Iaiza BNP Paribas Securities Services (AU)

Patrick Stampfli BNP Paribas Securities Services (AU)

Steve Iacono CommSec

Claire Gunson Computershare Limited

Vicki-Marie Hawkins HSBC Sec Serv AUS

Andrew Holden Netwealth

Paul Hagger Netwealth

Jeremy Boyton Oasis / ING

Paul Talbot RBC Dexia IS

Kevin Brennan State Street

Nick Warrick Vanguard Investments Australia Ltd

SWIFT representatives:

Zelda Anthony

Tim Hamer

Nektarios Liolios

Bill Doran

Apologies:

Colonial First State

JP Morgan

Link Market Services Limited

Macquarie Wrap

Mainstream BPO

NAB Asset Servicing

**Discussion / Resolution:**

1. **Objectives of SMPG – Funds:**
   1. Nektarios provided an overview of the role of the group being:
   * to make recommendations to the Swift Securities User Group (next meeting on Tuesday 17th August). Through this process, input is fed through to the Australian National Markets Practice Group;
   * to address the market practice for those items that have been agreed and approved at a national, regional and international level;
   * to support the co-ordination of the planning and implementation of the agreed market practice.

* 1. Paul explained that the intention is for meetings of the Group to be used to:
  + Review progress of the agreed market practice being applied within the industry; and
  + to continue the process of effecting process improvements for the Australian managed funds industry.
  1. The current status of activities was viewed as being:
  + Consolidation of Phase 1 (ie maintaining the increasing industry momentum for the use of SWIFTNet Funds for the processing of trade orders and confirmations for Applications and Redemptions); and
  + Initiation of Phase 2 involving the identification and addressing of the next set of priorities (this was seen as being important because of the long lead time in introducing industry change).

1. **Objectives for Meeting of Wed 2nd June:**

Consistent with the foregoing, objectives for the meeting included:

* + Obtaining feedback from each participant on the current status of their Swiftnet Funds activities;
  + Identifying priorities to be evaluated for submission to the SWIFT Securities User Group meeting on 17th August;
  + Agreeing the selection criteria for priorities to be addressed; and
  + Establishing next steps.

1. **Current Status of SwiftNet Funds activities:**

Ausmaq:

9 month project, live since last week, very happy, automation is already taking care of 10-15% of their flows.

*BlackRock:*

10-15% of volumes now automated over SWIFT, legacy BlackRock to move Q3/Q4

Busy working on outsourcing Unit Pricing and Fund Accounting

*BNP Paribas (Custody & Registry):*

Using SWIFT Infrastructure in Europe, planning integration testing for late September, counterparty testing in October and planned live date is 22 Nov 2010.

*CommSec Margin Lending:*

Dealing with 80 Fund managers, currently getting holdings information via email. Would like to see something similar to CHESS

*Computershare:*

Implementing in early July, start testing with HSBC (Claire to liaise with Vicki).

*HSBC Securities Services:*

“Working exactly how it was planned” 50-60 orders per day, want more counterparties

*JP Morgan (Custody & Registry):*

*Macquarie:*

No changes from previous status

*NAB Asset Servicing (Custody & Registry):*

No changes from previous status

*Netwealth*

Project re-prioritised to ‘medium-high’. Expect to be live within six months

*RBC Dexia Custody:*

Some progress since last update with establishment of middleware to convert files into a Swift format. Working on files being delivered into middleware and undertaking internal testing prior to testing with an external counterparty in late Q3 2010.

*State Street:*

No changes from previous status. It is still one of waiting for US parent to roll out implementation.

*Vanguard*:

Happy. 40 orders per day

1. **Potential Priorities:**
   1. From general discussion, the following items (in no particular order) were identified as potential priorities:
   * Transfers, incl. in-specie transfers
   * Holding statements
   * Distribution statements
   * Streamlining payments process (incl. referencing between payment and order)
   * Other registry transactions such as Management Fee Rebates and Return of Capital
   * Margin lending reports from Registrars being provided in a standard format and structure such that it can be automatically uploaded into systems of the Lender.

Some more specific comments follow.

* 1. Feedback from a number of Platforms has been that an In-Specie transfer capability is a high priority. Paul also advised that a “Single Leg Transfer” is a priority that has been identified in a European market practice group and is one item already being worked on. It is possible that Australia will be able to leverage off the work in Europe to enable a local capability for Transfers, including In-Specie Transfers.
  2. BNP advised that they will be attending meetings in Europe in the near future and that efforts will be made to learn more about market practice priorities being addressed in that part of the world.
  3. Holdings and Distribution Statements were seen as reasonably high volume items which are significant for Platforms and Custodians alike. One thought was that the two statements could possibly be incorporated into one.
  4. In respect of redemption payments, the objective was to streamline the reconciliation process with the actual receipt of the money (as opposed to a simple receipt of a Confirmation advising that money has been paid into a bank account). Netwealth advised that there are cases where redemption proceeds are received up to 5 days after receipt of the confirmation advice. It was agreed that this too should be addressed by an agreed market practice.
  5. It was acknowledged that some of the foregoing items have a “cross over” to other Market Practice Groups (Corporate Actions and Reconciliations).

1. **Selection Criteria:**

The Group accepted and agreed the tabled priority selection criteria of:

* + Quick wins. It was noted that in the current economic environment, the appetite for additional investment is low unless there is a quick and significant return on the investment. The desire is to achieve a real benefit with minimal work and investment (do any of the above potential priorities provide this?)
  + Broadening of market participation (by Platforms, Investment Managers and Custodians).
  + Consistency with the global direction (Australia may be able to leverage off the work of others. There can also be added complexity and cost if Australia elects to deviate from global practice).

1. **Next steps:**
   1. Work will now be undertaken on preparing material for submission to the Securities User Group meeting on Tuesday 17th August.
   2. It was agreed that sub groups will work together on the analysis of the above potential priorities. Ausmaq, Netwealth, Computershare, HSBC, State Street and CommSec (as it pertains to Margin Lending) and RBC Dexia expressed their willingness to be engaged in preparation of the analysis.
2. **Administration:**
   1. It was suggested and agreed that the venue of the Group meetings should be rotated between Sydney and Melbourne. Swift Management confirmed that its office in Sydney would always be available to facilitate telephone conferencing as required.
3. **Next Meeting:**
   1. Post the meeting, Vanguard offered to act as host for the next SMPG – Funds.
   2. The next meeting is scheduled for 3:00pm Wednesday 11th August 2010. Please diarise this time and let me know if there is a problem for you (or your delegate as I know some people will be on leave) for this time.
   3. For those able to attend in person, Vanguard’s address details are:

Level 34 Freshwater Place, 2 Southbank Boulevard, Southbank.

On arrival ask for Nick Warrick or Adrian Groves

* 1. For those who will participate by conference call, Dial In details will be provided on the Agenda which will be issued prior to the meeting.
  2. For those who will be participating by conference call by attendance in the Swift Sydney office, it would be appreciated if you can advise Swift of your intention in this respect.

**Potential priorities for next phase of development:**

**Next meeting:**

Tentatively scheduled for 9th August, in Melbourne (Paul Talbot asked for volunteers to host)