Investment Funds Single LegTransfers Processing Global Market Practice

Status:	Draft 0.0.0.8
Preparation date:	December 2009
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Changes to previous versions			
Version 0.0.0.1.	Draft	- First draft	31 Jul 2009
Version 0.0.0.2	Draft	- Incorporated comments raised since the conference call of 19 August: Section 3: Roles/Actors We have renamed the roles - these differ slightly from David Broadway's mail of 21/8, and hopefully also go some way to satisfying Steve Wallace's suggestion of 24 August. New definitions have been added for transferee and transferor. Investment manager has been removed as it is no longer referred to in the role definitions. Section 4: Activity diagrams We have renamed the various parties as per the above. We have amended "conversation" to "information exchange", so as to be more easily understood. In the double-leg scenario, we have added a status message to the transferor (now the Delivering Party) to alert them and prompt them to send the matching instruction. This has not been discussed previously by the Group, but has been added following a presentation to the EFAMA Fund Processing Standardization Group on 11 September, where there was a strong feeling that this step should be added to the process. The table at the end has revision as per the above and a new line added regarding the information exchange step. Section 5: Sequence diagrams We have renamed the various parties as per the above. References to "within 24 hours" have been amended to "next business day". 5.3/5.13 - We have add a reference to the acceptability of cancellations after confirmation has been issued to the receiving party, but left the matter to be determined by local requirements in the light of Tom Sutter's e-mail of 21 August. 5.5/5.10/5.17 - We have added a sentence to the introduction regarding where the error might be first discovered and added lines to the diagram to show the issuing of the corrected confirmations. Section 7: Order status requirements The reference in 7.1 to "within 24 hours" has been amended to "next	13 Sep 2009

		business day", as per section 5.

Glossary
Definitions of transferee and /transferor have been added as per section 3. | |
Version 0.0.0.3	Draft	- Added XML instance examples to Annex 1	
Version 0.0.0.4	Draft	- Incorporated comments raised during physical meeting in Munich - Scope has been refined to clarify it. - Single Leg process initiated by the Receiving Party and Double Leg process, activity diagrams and scenarios have been removed. - Single Leg process initiated by the Delivering Party has been refined by adding the concept of the Delivering Party sending a copy of the Transfer Out Instruction to the Receiving Party.	28 – 29 Sep 2009
Version 0.0.0.5	Draft	- Incorporated comments raised after the physical meeting in Munich and conference call: - Added note to Scope, noting that transfers within (I)CSD environments are subject to the relevant CSD's rules are not covered in this document, and that it is restricted to one single leg process, and it may be extended to a double leg process, if there is a demand from the market. - Added a couple of footnotes to the Activity. Diagram : (1) The initial information exchange process may be initiated by either party (2) Legislation and practice in some markets permit the transfer instruction to be sent to the Registering Party by the Receiving Party. In such instances the process is as described above and in the following sections, but with the Delivering and Receiving Party headings reversed. - Removed the note about the method of confirmation to the Receiving Party - Removed the term "single leg" from the sub-headings, given that we are only now describing the one scenario - Removed note from Rejection scenario. - Removed concept of Transfer Out message copy sent to the Receiving party from the activity and sequence diagrams. - Reorganized activity and sequence diagrams by putting the Registering Party between the Delivering and Receiving parties. - Renamed Reversal scenario to: Correction of a Transfer	21 Oct 2009

Version 0.0.0.6	Draft	- Incorporated co-chairs' comments: "Although the information exchange process is beyond the scope of this market practice it is nonetheless a prerequisite to the transfer process" This comment was incorporated to emphasize that the agreement of transfer and exchange of relevant counterparty details and transaction references is a prerequisite, and was added to sections Activity Diagram and Sequence Diagrams Removed xml instances related to "Transfer In" messages from Annex 1. Added a table with the set of messages that can be used for stock transfers to Annex 1 and also 2 xml instances (cancellation and reversal) related to "Transfer Out" messages for completeness of the document.	12 Nov 2009
Version 0.0.0.7	Draft	Incorporated comments raised during the conference call of 18 November, and discussions with co-chairs and IT: Updated Title as follows: "Single Leg Transfer Processing" Updated Introduction as follows: "This document contains the global market practice guidelines for the interpretation and usage of ISO 20022 transfer messages in a single leg process by the players in the international investment funds industry. The publication of the double leg process market practice document will follow next year". Removed sentence from the scope: "This document is also restricted to a single leg process and may be extended to a double leg process, if there is a demand from the market; these will be covered in separate documents" Removed Annex1 from document and incorporated them as a separate tab in the message templates (.xls files). Added notification of cancellation from the Delivering Party to the Receiving Party in scenario 5.3, with a note that this exchange of information may be carried out through a different mean (e.g fax, phone, email, etc).	20 Nov 2009 and 02 Dec 2009
Version 0.0.0.8	Draft	Incorporated comments raised during the conference call of 14 December, and discussions with co-chairs and IT: Added note to Section 2 Scope/Definitions: Transfer In (not used in this market practice). Updated section 5.2 Rejection Scenario as follows: "The Transfer Instruction Status Report with the rejected reason should be sent as soon as possible after receipt of the instruction" Removed references to Transfer In messages (where applicable) in Section 6 Transfer Instruction Business data requirements and Section 8.1 Transfer Cancellation Request data requirements. Added note: Data requirement files (message representations in .xls) are expected to be published 1Q 2010 Removed glossary. Updated Annex (Change Requests)	14 Dec 2009

1. **Introduction**

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

The publication of the double leg process market practice document will follow next year.

This document serves as a reference for the work of Investment Funds Working Group (IFWG) of the Securities Market Practice Group (SMPG). It 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 (UK)
- United States (US)
- Clearstream
- Euroclear

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 compliment the domestic market practice documents in each market.

2. <u>Scope</u>

The scope of this document covers the stock transfer initiation and confirmation processes when dealing in investment funds. The recommendation of the SMPG is to communicate using the ISO 20022 message standard, which is non proprietary and therefore network independent.

It is focused on the transfer and confirmation process that takes place between a delivering party or receiving party[1] and a registering party (usually a Transfer Agent for the fund) using a single intermediary, in this context it is a pre requisite that the receiving account is already open at the registering party, and the transfer reference numbers are already agreed by the delivering and receiving parties. However this can be adapted for situations involving multiple levels of intermediaries, or where the delivering/receiving party communicates directly with the registering party; it identifies the business data required for an individual transaction. This document covers transfer out and in instructions and confirmations.

The market practice does not cover the account opening or portfolio transfer processes nor the stock transfers within (I)CSD environments, since they are subject to the relevant CSD's rules.

<u>Definitions</u>

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[2], SICAV[3]) and contractual funds (FCP[4]), 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.

- The term 'units' is used to represent units or shares of a fund.

- Transfer Out - an instruction given to the executing party, to instruct the withdrawal of a financial instrument from one account and deliver it to either another account or to a third party.

- Transfer In (not used in this market practice) - an instruction given to the executing party, to instruct the receipt of a financial instrument from another account, either owned by the instructing party or by a third party.

- Confirmation - a report sent to the instructing party, to confirm the execution details of an order. This will confirm the financial and contractual details of the transaction.

- Transfer Cancellation –cancellation of an instruction that has been previously sent. The processing of a cancellation may be subject to the agreement of the executing party and the time at which the cancellation request is received.

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[1] In some markets (e.g. US and UK) the stock transfer process may be initiated by the receiving party.
[2] Open-ended investment company
[3] Société d'investissement a capital variable
[4] Fonds Commun de Placement

3. Roles and Actors

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

Delivering Party	Registering Party	Receiving Party
The transferor or someone acting on their behalf, eg custodian, in the transfer process.	The party that maintains the record of holders of fund units, for example, transfer agent, fund manager.	The transferee or someone acting on their behalf, eg. custodian, in the transfer process.

Actor	Description	Examples/synonyms	Typical Roles
Custodian	A party who holds the assets on behalf of an individual or institutional investor in their own or a nominee name. They may be asked to send stock transfers instructions on behalf of the investor.		Delivering Party Receiving Party
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	Registering Party
Investor	The party whose stock is transferred. It can be one or more individuals or entities.		
Transfer agent	The entity that undertakes the execution of stock transfers on behalf of the fund.		Registering Party
Transferee	The existing holder of the units, who is transferring them to the transferee. May be an investor or someone holding assets on their behalf.		Delivering Party
Transferor	The new holder of the units, who is receiving them form the transferor. May be an investor or someone holding assets on their behalf.		Receiving Party

4. Activity Diagram:

The following diagram provides an overview of the stock transfer instruction process. It shows the main activities in a Single Leg scenario that will result in the processing by the Registering Party of a stock transfer that is executed between the Delivering and Receiving Parties (transferor and transferee)[5]. *Note that this document does not examine the account opening process.*

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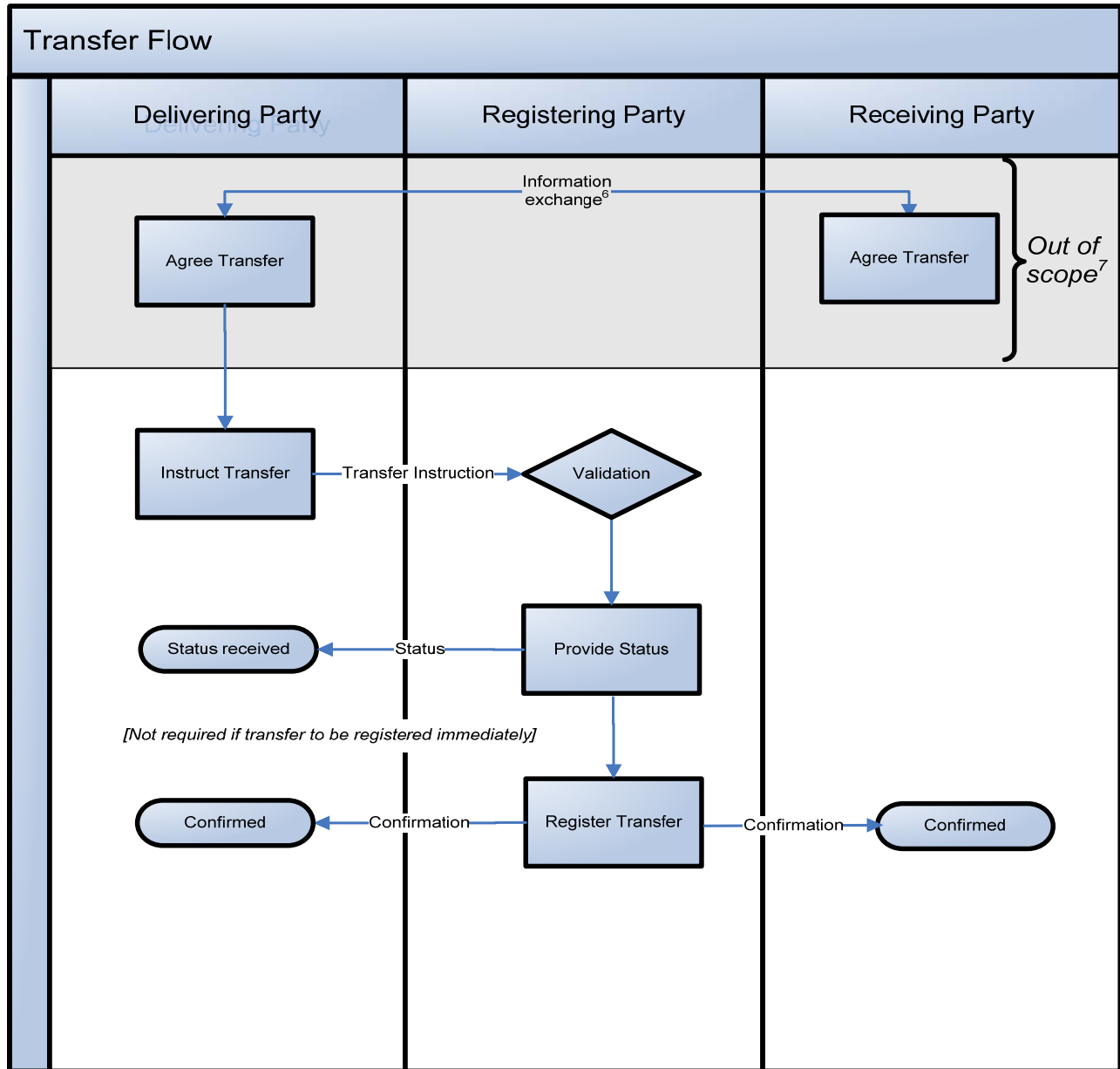
[5] Legislation and practice in some markets permit the transfer instruction to be sent to the Registering Party by the Receiving Party. In such instances the process is as described above and in the following sections, but with the Delivering and Receiving Party headings reversed.

[6] The initial information exchange process may be initiated by either party

[7] Although the information exchange process is beyond the scope of this market practice it is nonetheless a pre-requisite to the transfer process

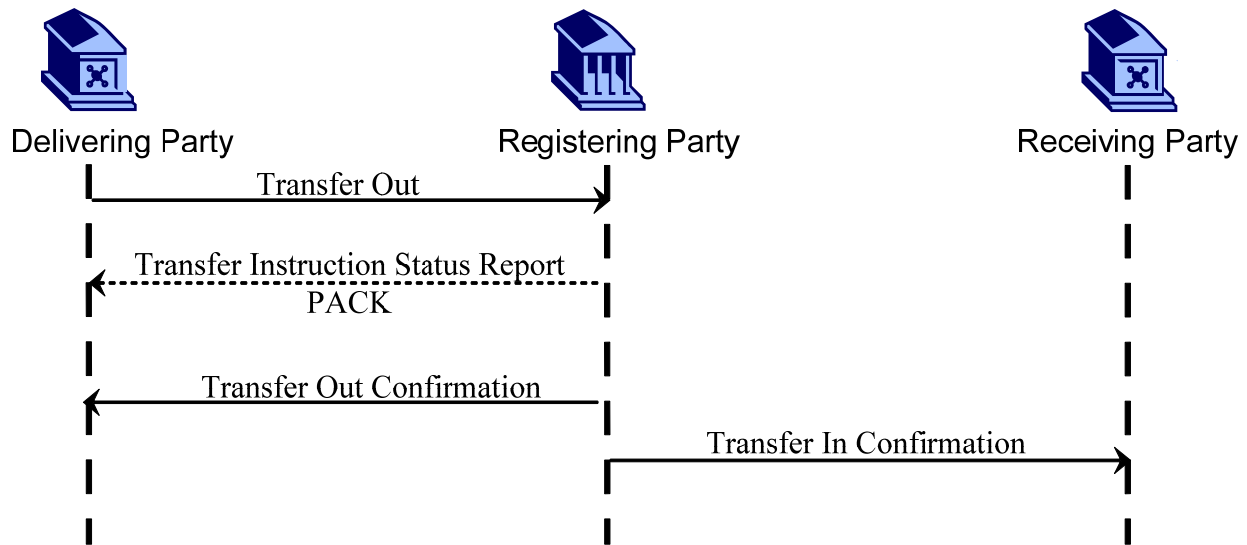| Delivering/Receiving Party	Registering Party
Information exchange Agreement of transfer and exchange of relevant counterparty details and transaction references. *Note: this phase of the process is outside the scope of this document.*	
Instruct Transfer Instruction of the transfer to the Registering Party.	
	Validate/Process Transfer Validation of the instruction and the ability to process it.
	Status To indicate to the Delivering/Receiving Party(ies) if the transfer is accepted by the Registering Party
	Registration Processing of the transfer using the appropriate unit price
	Confirmation Notification to the Delivering/Receiving Parties of the registration of the transfer.

5. Sequence Diagrams:

The following diagrams describe the communication flows for specific scenarios. It shows the typical exchanges of messages in the context of a transaction.

Note that although the initial exchange of information between the delivering and receiving parties is not covered within this document, it is a prerequisite that they agree the transfer and ensure that the Delivering Party is provided with the Receiving Party's account identifier and transfer reference.

5.1. Positive Scenario

This diagram describes a positive flow of messages between the Delivering Party, and the Registering Party.
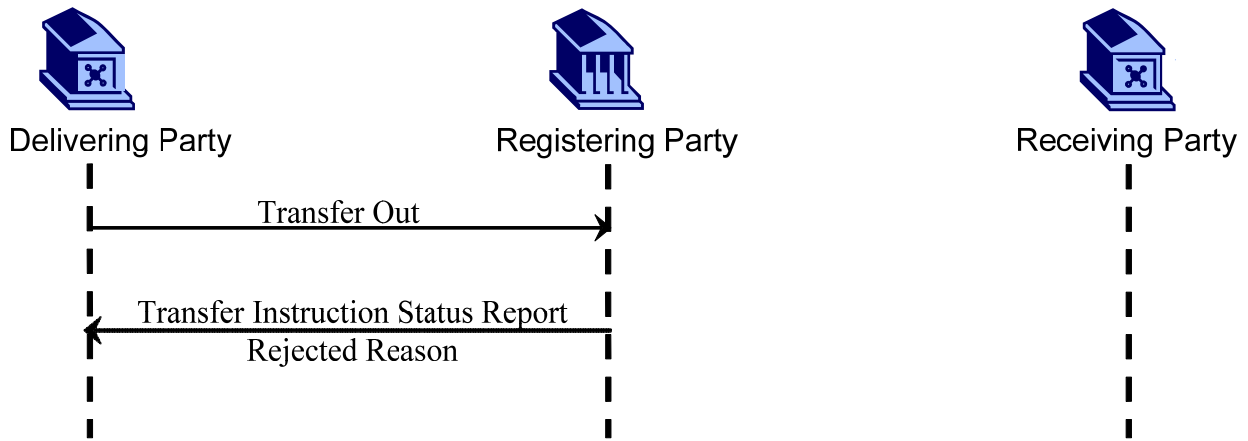
Example:

- The Transfer Out is sent by the Delivering Party to the Registering Party.

- The Registering Party may acknowledge receipt using a Transfer Instruction Status Report message with a status of "received". However if the transfer will not be confirmed before the end of the next business day, then the Registering Party must provide the status message to the Delivering Party.

- Once the transfer has been successfully processed, the Registering Party sends a Transfer Out Confirmation to the Delivering Party to confirm the transaction.

- The Registering Party sends a Transfer In Confirmation to the Receiving Party.

5.2. Rejection Scenario

This diagram describes a flow of messages where an order is placed but is rejected for processing due to incorrect details such as an incorrect account or ISIN details.


Example:

- The Transfer Out is sent by the Delivering Party to the Registering Party.

- The Transfer Instruction Status Report with the rejected reason should be sent as soon as possible after receipt of the instruction.

5.3. Cancellation of Transfer

This diagram describes a flow of messages where a transfer is placed and a cancellation request is sent by the Delivering Party after the stock transfer is confirmed by the Registering Party. The Registering Party may complete the cancellation or reject it.

Note: Local requirements and market practice will determine whether or not the Registering Party would accept a cancellation request from the Delivering Party after confirmation of the transfer has been issued to the Receiving Party. If that is the case, a Reversal Transfer In Confirmation would be sent to the Receiving Party.

Example:
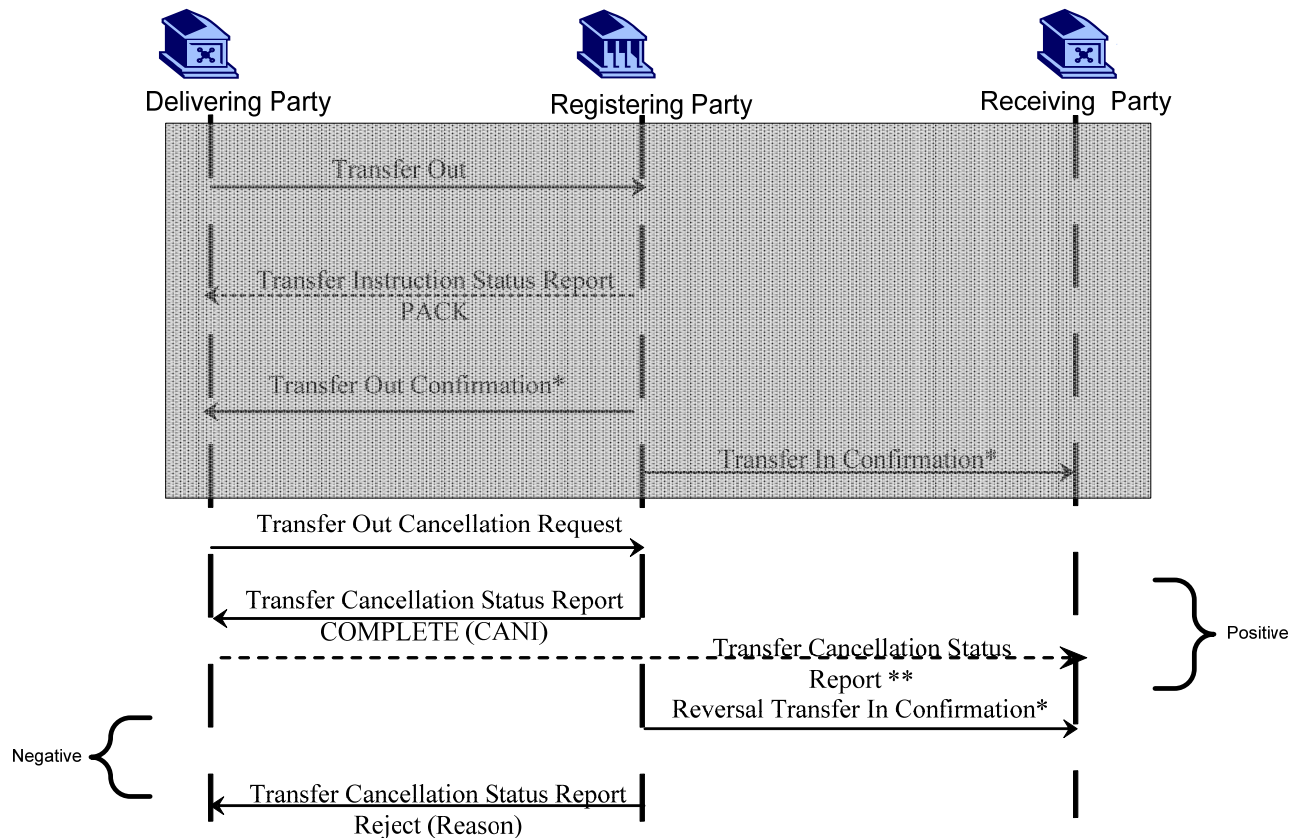
- The shaded area shows the completed transfer process as described in section 5.1.

- The Delivering Party sends the cancellation request to the Registering Party.

- The Registering Party validates if the cancellation can be processed and responds with a cancellation status report with status cancellation <u>complete</u>.

- The Registering Party sends a Reversal Of Transfer In Confirmation relating to the previous message to the Receiving Party to reverse the transaction.

- If the cancellation request is rejected, the Registering Party responds with a cancellation status report with a status to <u>reject</u> the cancellation request.

* It is not applicable in markets where the Registering Party would not accept a cancellation request from the Delivering Party after confirmation of the transfer has been issued to the Receiving Party.

*** The Delivering Party should notify the Receiving Party of the transfer cancellation. This notification may be communicated by other mean, e.g. email, fax, etc.*

5.4. <u>Correction of a Transfer Scenario</u>

This diagram documents the flow of messages where the Registering Party processed the transfer, but a problem occurred such as he transferred the stock into the wrong account, or the quantity transferred was incorrect, and needs to reverse the transaction to undo the transfer. The error may be discovered by any actor, but is assumed to be communicated manually to the Registering Party if it is found by the Delivering or Receiving Party.

Example:
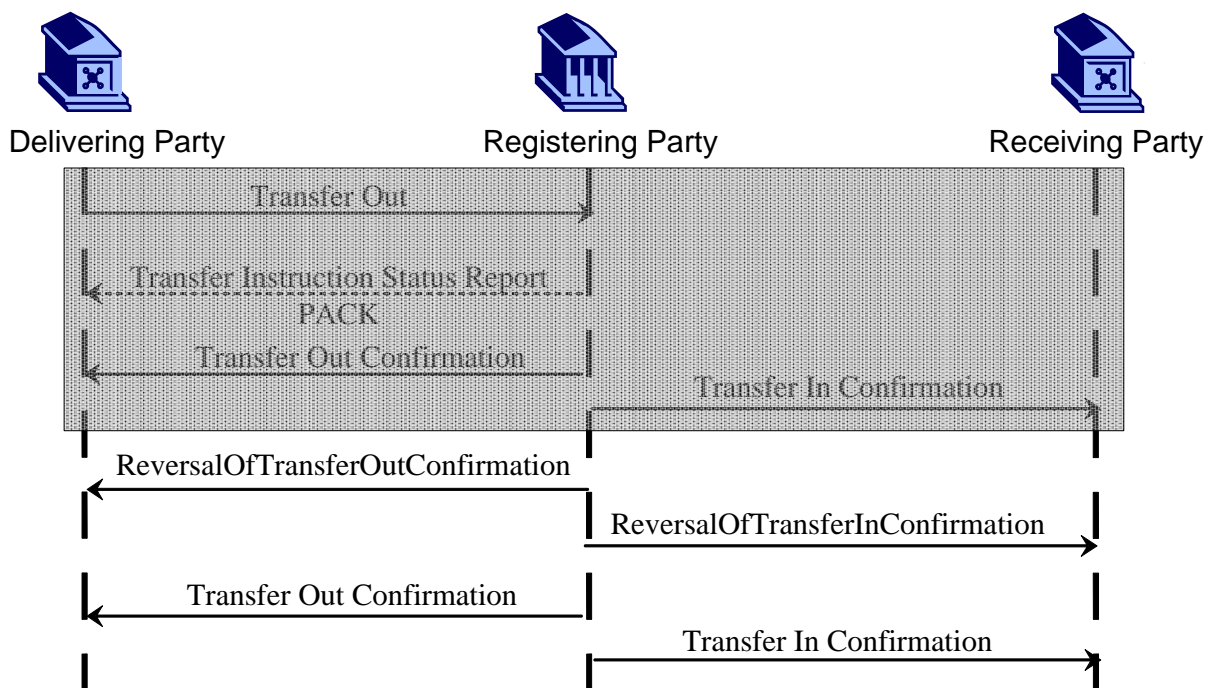
- The shaded area shows the completed transfer process as described in section 5.1.

- The Registering Party after noticing the error will send a Reversal Of Transfer Out confirmation relating to the previous message to the Delivering Party to reverse the transaction.

- The Registering Party after noticing the error will send a Reversal Of Transfer In confirmation relating to the previous message to the Receiving Party to reverse the transaction.

- Transfer is undone.

- The Registering Party sends a Transfer Out Confirmation to the Delivering Party to confirm the correction of the transaction.

- The Registering Party sends a Transfer In Confirmation to the Receiving Party.

6. Transfer Instruction Business data requirements:

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

For detailed global market practices please refer to: Tran(a)OutInst.xls

7. Order Status business data requirements

7.1. Market usage of Status Reporting

Status Reporting – An executing party, sends the Transfer Instruction Status Report message to the instructing party, to confirm whether or not a transfer is valid and accepted for execution.

The following status reports are recommended by the SMPG:

- To report the reception of a transfer instruction, if the transfer will not be confirmed before the end of the next business day

- To report the rejection of a transfer instruction and the reason for rejection

In some business scenarios other status messages may be provided but these should be agreed by SLA.

SMPG recommends the Transfer reference is used to link Transfer Instruction, Status, Confirmation and Cancellation processes.
The SMPG does not recommend the use of further details as these would need to be validated by the receiver of the status causing an additional processing burden to the recipient.

For detailed global market practices please refer to: Tran(b)InstSts.xls

8. Transfer Confirmation business data requirements

Please refer to: Tran(c)OutConf.xls and Tran(e)InConf.xls

8.1. Transfer Cancellation Request data requirements

Please refer to:
Tran(f)OutCan.xls

9. Cancellation Status Report Business Data Requirements

9.1. Market usage of Transfer Cancellation Status Report

The SMPG recommends that the status is matched by sender and transfer reference only.

The SMPG does not recommend the use of further details as these would need to be validated by the receiver of the status causing an additional processing burden to the recipient.

9.2. Transfer Cancellation Status data requirements

Please refer to: Tran(h)CanSts.xls

10. Reversal of a Transfer Confirmation Business Data Requirements

10.1. Market usage of reversal of confirmation report

The reversal of a transfer confirmation message in 20022 is to reverse a Transfer Confirmation placed in error (with no correction).

10.2. Reversal of a Transfer Confirmation data requirements

Please refer to:

Tran(i)OutConRev.xls

Tran(j)InConRev.xls

Data requirement files (message representations in .xls) are expected to be published 1Q 2010

ANNEX – Change requests raised by the SMPG IFWG related to transfers that will be reviewed by the maintenance working group.

#	Market	Region	Nature	Description	Message(s) Impacted	Title	Date Submitted
U-003-2009	Global	Global	Modification	Change multiplicity of element CancellationReference from optional [0..1] to mandatory [1..1]	sese.002.001.02 sese.006.001.02 sese.010.001.02	Cancellation Reference	Dec 2009
U-004-2009	Global	Global	Add new element	A new optional message element TransferReason [0..1] will be introduced in the TransferDetails building block. This new message element will be typed by a code list.	sese.001.001.02 sese.003.001.02 sese.005.001.02 sese.007.001.02	Transfer Reason Code	Dec 2009
U-006-2009	Global	Global	Modification	Change multiplicity of element TradeDate from mandatory [1..1] to optional [0..1]	sese.003.001.02 sese.007.001.02	Trade Date	Dec 2009
U-008-2009	Global	Global	Add new element	Create an optional [0..1] counterparty's (Transferor/Transferee) reference (identifier), because most of the referencing systems are not flexible enough to accept a common reference.	sese.001.001.02 sese.011.001.02 sese.003.001.02 sese.005.001.02 sese.007.001.02 sese.002.001.02 sese.006.001.02 sese.004.001.02 sese.008.001.02 sese.010.001.02	Counterparty Reference	Dec 2009
U-009-2009	Global	Global	Add new element	Create an optional [0..1] Business Flow Type code list to identify the business process that the Registering Party will need to carry out the stock transfer.	sese.001.001.02 sese.005.001.02	Business Flow Type	Dec 2009