



SECURITIES MARKET PRACTICE GROUP

SMPG

**UK FUNDS MARKET PRACTICE GROUP
UNIT CLASS CONVERSIONS**

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1. INTRODUCTION

This document contains UK market practice guidance for the interpretation and usage of ISO 20022 messages for the purposes of undertaking unit conversions - a process where the holder of units in one class of an investment fund exercises their right at any time to convert their holding to units of another class in the same fund, subject to being eligible to hold in the new class.

It has been published by the UK Funds Market Practice Group (UKFMPG), a national constituent of the Investment Funds Working Group of the global Securities Market Practice Group (SMPG). The principal objective of the UKFMPG is to facilitate more efficient processing with regard to holdings in UK investment funds. To that end, this document is intended to be considered as a basis for market practice and implementation of ISO 20022 messages in the UK investment fund space. It is aimed primarily at:

- fund management companies and fund registrars (transfer agents);
- fund platforms, custodians and asset servicing hubs;
- investment managers (including wealth managers)
- financial institution investors (eg. insurance companies); and
- distributors of investment funds

The market practice described in this document has been created for those using messages adopted under the ISO 20022 standard throughout the transfer process, although alternative mechanisms can be employed, for example, where the holder is a CREST participant. Where that is the case, this document should be read in conjunction with the equivalent procedures and guidance created for that mechanism and adapted accordingly.

The UKFMPG comprises a wide range of financial institutions with an interest in the automation of fund processing in the UK, including:

- fund management companies and administrators;
- fund supermarket and wrap platforms;
- pensions providers and administrators;
- wealth managers;
- execution only stockbrokers;
- custodians;
- market infrastructure and other solution providers.

A number of those institutions have been actively involved in the preparation of this market practice.

This is a living document and will be subject to future revision and addition as global market practice develops and evolves. ISO 20022 is an open standard and can be used freely over any messaging network or other transport mechanism that facilitates it - the market practice contained in this document is intended to be entirely network/mechanism neutral.

2. SCOPE

This market practice considers the communication flows and use of ISO 20022 messages for the purposes of instructing a Fund Manager¹ or account servicing intermediary (the Executing Party) regarding the conversion of units between classes of an authorised investment fund, as well as the associated status response and confirmation to be returned by the Executing Party to the Instructing Party.

Processes

This document considers the following processes:

- delivery of the conversion instruction from an Instructing Party to the Executing Party;
- the status response from the Executing Party to acknowledge or reject the instruction, as appropriate; and
- the final confirmation from the Executing Party to the Instructing Party that the instruction has been executed.

It is assumed that exception processing, including the cancellation of instructions and query resolution, will be addressed manually.

Detail concerning the population of the relevant ISO 20022 message elements is provided in a spreadsheet annex.

Key definitions (see also Section 3 - Roles and Actors)

The following key terms are used throughout this document hereafter:

conversion	a transaction whereby a holder of units in one class of an investment fund converts some or all of their holding to shares in another class of the <u>same</u> investment fund
Executing Party	see section 3 below
Instructing Party	see section 3 below
investment fund	UK-authorised unit trust or open-ended investment company, or other fund that is administered in a similar way

¹ References to Fund Manager in this document include any third party to which they have outsourced their transfer agency functions.

3. ROLES AND ACTORS

This section describes the roles played in the transfer process and the actors that may perform those roles.

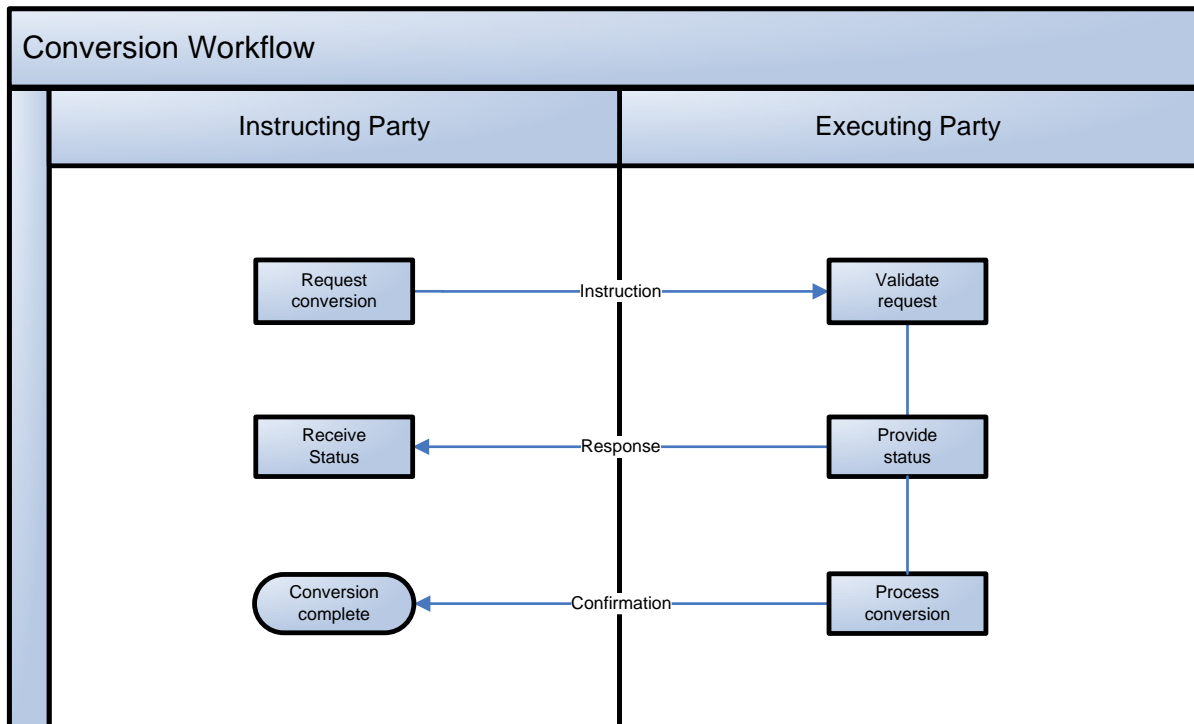
Instructing Party	Executing Party
The party that sends a conversion instruction to the Fund Manager or other Executing Party on their own account or on behalf of a third party unitholder.	The party that is ultimately responsible for the processing of a conversion a securities account or the fund's register of unitholders or the onward transmission of the instruction to another Executing Party.

Actor	Description	Synonyms	Typical roles
Custodian	An entity that provides securities accounts for the purposes of holding assets on behalf of customers.		Executing Party Instructing Party
Customer	The ultimate account holder (who may or may not be the ultimate beneficial owner) in whose name legal title to an asset may be registered.	Investor	Instructing Party
Execution-only broker	An entity that executes trades with an appropriate counterparty on the instructions of a Customer. It may provide securities accounts to its customers for the purposes of trade settlement efficiency.		Executing Party Instructing Party
Fund Manager	The entity responsible for the management and operation of an investment fund, including the activities of a third party provider of transfer agency services. It may also provide additional services, eg. ISA management, which involve provision of securities accounts.	Registrar Transfer Agent	Executing Party
Investment manager	An entity that manages portfolios of investments with discretion to trade those investments in accordance with mandates agreed with its customers.	Discretionary Manager	Instructing Party
Platform	An entity that provides securities account and trading services to customers. It minimises market activity by the aggregation of client orders through omnibus holdings on fund registers.	Fund Supermarket Wrap	Executing Party Instructing Party

Third Party Administrator	An entity that provides outsourced client administration services to Fund Managers, including fund dealing and register maintenance and ISA administration.	Registrar Transfer Agent	Executing Party
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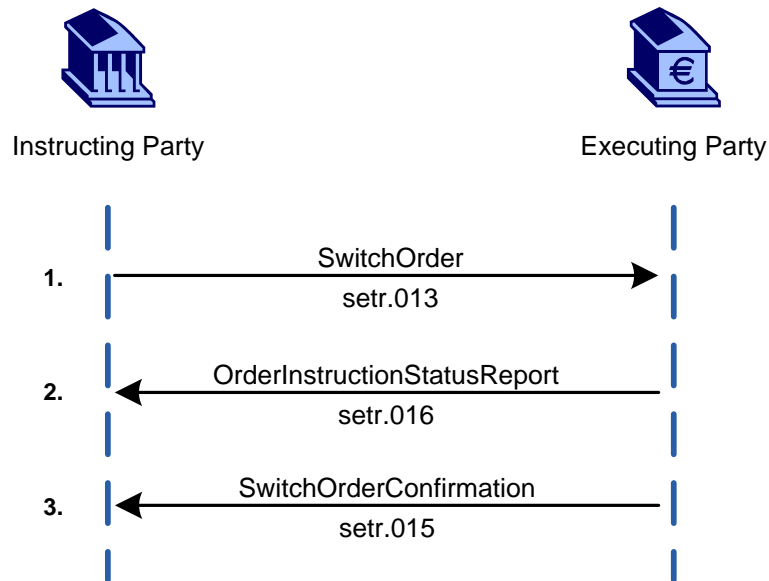
4. ACTIVITY DIAGRAM

The following diagram provides an overview of the processes within the scope of this document.



5. SEQUENCE DIAGRAM

The following diagram describes the communication flow for a conversion, showing the typical exchange of messages.



Note: Although conversions do not involve redemption or subscription orders, the switch order messages have been selected as the best mechanism that is available currently within the ISO 20022 message catalogue for the conversion process. The terms "switch" and "order" that are contained in the messages used in the process should be interpreted accordingly to refer to conversions.

Process

1. The Instructing Party requests the Executing Party to convert all or part of a unitholding to another share class using the SwitchOrder message (setr.013).
2.
 - (a) The Executing Party responds with an OrderInstructionStatusReport message (setr.016) as soon as possible following receipt of the conversion instruction to either acknowledge its receipt or, where there is a valid reason, reject the instruction.
 - (b) If the Executing Party acknowledges receipt of an instruction, it may subsequently find that the instruction cannot be processed, in which case it sends a further OrderInstructionStatusReport message (setr.016) to reject the instruction.
3. Once it has executed the instruction, the Executing Party sends a SwitchOrderConfirmation message (setr.015) to the Instructing Party.

6. BUSINESS DATA REQUIREMENTS

This section describes the business information that will be needed for the business process to take place. The sections below consider the three key phases of the process that fall within the scope of this document, as follows:

- Conversion instruction
- Status response
- Conversion confirmation

6.1 Conversion instruction

The SwitchOrder message (setr.013) is used by the Instructing Party to request the Executing Party to convert all or part of a unitholding to another share class. For detailed recommendations regarding message element usage, please refer to MyStandards:

Collection Name:
NMPG-GB-IF-Unit Class Conversions-V1.1
Message Usage Guidelines:
SwitchOrderV03_setr.013.001.03 (conversion instruction)

Note only one conversion should be instructed in each message, with separate "redemption" legs used for Group 1 and Group 2 units, where the individual quantities are known by the Instructing Party in any instance other than where 100% of the holding is to be converted. In any case, only one "subscription" leg should be used, simply to identify the class to which the shares are to be converted

6.2 Status response

The OrderInstructionStatusReport message (setr.016) is used by the Executing Party to advise the Instructing Party that the instruction has either been accepted for processing or is rejected. For detailed recommendations regarding message element usage, please refer to the Status worksheet in UKFMP_Conversions_(v1.0).xlsx.

Collection Name:
NMPG-GB-IF-Unit Class Conversions-V1.1
Message Usage Guidelines:
OrderInstructionStatusReportV03_setr.016.001.03 (conversion status)

6.3 Conversion confirmation

The SwitchOrderConfirmation message (setr.015) is used by the Executing Party at the end of the process to confirm to the Instructing Party that the conversion instruction has been executed and advise them of the number of units that have been allocated in the new class. For detailed recommendations regarding message element usage, please refer to the Confirmation worksheet in UKFMP_Conversions_(v1.0).xlsx.

Collection Name:
NMPG-GB-IF-Unit Class Conversions-V1.1

Message Usage Guidelines:
SwitchOrderConfirmationV03_setr.015.001.03 (conversion confirmation)

Note that confirmations should use separate "redemption" legs to report the Group 1 and Group 2 units that have been converted. The total number of units in the new class must be reported in the "subscription" leg, with the Group 1/Group 2 breakdown provided by way of extensions, as indicated in the spreadsheet.

6.4 Account identification

In order to facilitate the development of tactical message solutions based on existing implementations of these messages for switch orders, an open approach has been taken to account identification. Accounts may be identified optionally at sub-account level and account identification may be provided at instruction or leg level or both as agreed between the counterparties.

Where account identification is provided in the subscription leg (for units allocated by the conversion), this may only differ at sub-account level from the identification at instruction level and/or in the redemption leg (for the units to be converted) and only to reflect, for example, that the allocated units are to be held in a different product container for administrative purposes.