



Supporting Cross-border Fund Distribution in a Global Marketplace:

Identifying Strategic
Opportunities for Business
Development

Biographies

Etienne Carmon



Etienne Carmon is responsible for overseeing the development and enhancement of the product offer for CACEIS Bank Luxembourg and its subsidiaries. With over 20 years' experience in the asset servicing industry, his key areas of expertise are global transfer agency and cross-border fund distribution. Prior to joining CACEIS in 2005, Etienne held positions with responsibility for Transfer Agency activity at EFA, JP Morgan Chase and FETA (which became RBC Dexia).



Sebastien Chaker



Sebastien Chaker has served as head of Calastone's Luxembourg office since March 2010 and is responsible for international business development.

Mr Chaker's career spans 15 years' experience in the investment fund market. He joined Calastone from Brown Brothers Harriman Limited in London, where he was Global Head of Fund Solutions Business Development. Prior to this, Mr Chaker worked for Euroclear SA in Brussels where he was Director in the Investment Funds Product Management division, with primary responsibility for defining and implementing Euroclear's FundSettle global funds strategy. Mr Chaker started his career at Citibank Global Consumer bank in Paris as a product manager in charge of investments and savings products including CitiChoice, the bank's third party fund distribution programme.

Sebastien Chaker graduated in 1995 from the "Universite Libre de Bruxelles" in the Faculty of Economical, Social and Political Sciences.



Julien Cuminet



Julien Cuminet is Deputy Chief Operating Officer, Asset and Fund Services at BNP Paribas Securities Services (BP2S). His scope covers global fund accounting, middle office, performance reporting, core TA, retail TA, regional TA and fund distribution support (fund orders for clients which are in custody in BP2S). His responsibility includes the management of global and local operations and the implementation of BP2S' transfer agent global operating model across all countries.

Julien was born in 1970. He studied Business and Finance in France at the Business School of EDHEC in Lille (1993), and economics at Institut d'Etudes Politiques in Paris (1997). Julien started his career at Groupe Banques Populaires in 1997, spending four years in the General Audit (Inspection Générale) in order to lead control on Group entities (retail activities and capital market, insurance, factoring business) in France and in Asia, finally as manager.

Subsequently, Julien worked as a manager at Accenture in the strategy department on pre- and post-merger deals in the banking sector. Also, he worked as an associate at Orga Consultants, a French consultancy firm (250 consultants) specialising in post-merger integration.

Julien joined BNP Paribas Securities Services in April 2008 as Global Head of Transfer Agent and Retail.



Josée Denis



Josée Denis is Vice President at BNY Mellon Asset Servicing in Luxembourg since January 2007. Josée forms part of the Global Product Management with the main remit of articulating, developing and supporting the deployment of the Bank's Global Distribution Support service offering across its key fund services locations in the world.

Josée is also an advocate and ambassador of BNY Mellon EMEA Asset Servicing where she is a committed member of fund industry associations and corresponding endeavours at EFAMA, ALFI and other related bodies covering Europe, the Americas and Asia. Josée is the founder and chairwoman of the Luxembourg TA & Distribution Forum, launched in 1999, as well as the chairwoman of the ALFI TA Forum since its integration to ALFI in 2004.

Josée is a veteran of the investment management and financial services industries, having worked in this sector for over 20 years. A highly experienced Investment Management (IM) and banking professional, with key expertise acquired in IM and banking operations and services mainly at Chase Manhattan Bank, State Street Bank and Fleming Fund Management (now JPMorgan Asset Management) in Luxembourg. Prior to her appointment at BNY Mellon, Josée was a Director in the PricewaterhouseCoopers Luxembourg IM Advisory Services practice for seven years.



Philippe Seyll



Philippe Seyll is Executive Vice President, Member of the Executive Board at Clearstream. With a remit to expand the business line and to deliver efficient processing solutions in partnership with the industry, he joined the company in 2005 from Bank of New York, London, where he was Managing Director, Head of Investment Managers since 1997. Formerly he was Head of Sales & Marketing, managing the international sales and marketing team for Europe at Banque Indosuez Luxembourg. Philippe also sat on the EFAMA Board. Prior to that Philippe was responsible for the management of SWIFT clients for France, Belgium and Luxembourg at SWIFT.

Philippe holds a Master of Science degree in Management, Computer Science and Mechanical Industrial Engineering.



Tony Wood



Tony Wood, formerly Deputy Chief Executive Officer of EMXCo, joined the Euroclear group upon the merger of the two entities in 2007. At EMXCo, he successfully led the firm's sales and marketing effort which established the EMX Message System as the leading fund messaging system and market standard in the United Kingdom. Today, Mr Wood is Head of Euroclear Fund Sales in the Commercial Division, with overall responsibility for sales of Euroclear investment fund services across all markets.

Mr Wood joined EMXCo in 2003. Previously, he worked at Misy's IFA Services where, as Managing Director of Countrywide Independent Advisers, he was responsible for recruitment, training, compliance and productivity for one of the largest IFA networks in the UK. During this period, he was also a board member of another Misy's-owned IFA network, Kestrel.

Before joining Misy's in 2000, Mr Wood held senior positions at Eagle Star and Zurich, where he successfully managed strategic partnerships and introduced a new distribution channel.



An **FSR** panel discussion for publication in the Q3 2010 issue of Financial Services Research

Global distribution of UCITS products continues to gather pace, with international asset managers deploying a UCITS wrapper to distribute market leading fund products cross-border within Europe and into the Asia Pacific, Middle East, South America and other locations.

Within Europe, we see changes to the UCITS regime under UCITS IV (extending additional freedoms to Management Companies via the Management Company Passport, extension of fund pooling and cross-border fund mergers for example) designed to provide a more efficient environment for investment fund manufacture and distribution, thereby reinforcing Europe's position as an attractive domicile for investment funds globally.

Within this European framework, we have also seen much attention directed to the extension of an open or guided

architecture environment to support third-party fund distribution. But some industry observers warn that we should not overestimate the expansion of third-party fund distribution in some European jurisdictions. Vertically-integrated banking groups that own asset management companies continue to dominate the distribution sphere in several European countries. For instance, in France, Italy, Spain, Scandinavia, retail distribution of investment fund products continues to be dominated by major retail banks – and genuine 'open architecture', where distributors offer a wide array of third party funds to retail clients, has been slow to develop.

In responding to these industry developments, FSR asked participants to reflect on the major drivers that are shaping change in asset managers' distribution strategies and how they are adapting product delivery to the shifting preferences of fund distributors and the end investor.



Participants:

Moderator:

Bob Currie, Editorial Director, Financial Services Research Limited

Etienne Carmon, Head of International Product Development, CACEIS Luxembourg

Sebastien Chaker, Managing Director, Calastone Transaction Network

Julien Cuminet, Deputy Head of Asset and Fund Services Operations, BNP Paribas Securities Services

Josée Denis, Global Product Management, Global Fund Services, The Bank of New York Mellon

Philippe Seyll, Head of Investment Fund Services, Clearstream

Tony Wood, Head of Fund Sales, Euroclear

Introduction

In the face of the developments in global fund distribution outlined in our opening comments, what are the priorities for your organisation in supporting the distribution strategies of your asset management customers?

Julien Cuminet: We identify two primary drivers in the current market environment for fund distribution. The first is to simplify the access that investors have to fund products. The second is to improve the efficiency of investment funds markets – the efficiency with which investment funds are manufactured and distributed and the procedures through which fund transactions settle and

are long standing challenges and there is nothing new about our ambitions to lower cost, reduce risk and improve operational efficiency within the investment funds marketplace. UCITS IV will bring greater flexibility to fund manufacture and distribution in Europe – and we believe that changes introduced under this Directive will also make the European market more attractive as a destination for inwards investment from the Asia-Pacific and other locations globally.

Etienne Carmon: As we consider strategies to improve access for the investor to fund products, we must recognise the importance of investor education as fund promoters extend their distribution into new markets globally. As third-party distribution of funds has extended worldwide,

A key message is that we should not overcomplicate the process of buying and selling investment funds. Whether we are dealing with an institutional or retail investor, whether based in Europe or other parts of the world, typically the investor is looking for a product that is affordable, easy to understand and is in line with the level of risk that they are prepared to take in their investment strategy.

asset servicing requirements are fulfilled. In the first of these areas, we believe that investor access to fund products has improved substantially during the past decade in many European jurisdictions. The challenge is now to extend this access out to markets in the Asia-Pacific, Middle East, Latin America and other regions where investment fund sales are gathering momentum. In the second area, UCITS IV has extended the flexibility available to asset managers to manufacture funds centrally and to distribute these cross-border, backed by high standards of transparency and investor protection extended by the UCITS brand.

Tony Wood: At Euroclear, we share a commitment to make investment funds more attractive as an investment vehicle and to improve the efficiency with which the investment fund market operates. These

management companies have evaluated the potential benefits of open architecture and guided architecture models and in many cases a guided architecture strategy has prevailed.

An open architecture environment will allow a fund promoter's products to be extended to a wide array of distributors, some of whom may be unfamiliar with the product and may not be well placed to explain the investment strategy and risk-return profile to the investor. This can present problems for the fund promoter in a UCITS environment where investor protection and transparency are fundamental to the strength of the UCITS brand.

As fund promoters extend their reach into Asia, they may find themselves engaging with a fundamentally different investor

culture. For example, recent survey data (Ernst & Young, *A Short Introduction to the Asset Management and Custody Industry in China*, June 2010) highlights the short typical holding period when retail investors in mainland China buy fund products in the local market: approximately 55 per cent of purchases by Chinese investors in local fund products were sold again within 6-12 months and only three per cent of investment transactions rested for more than three years in the same fund. Before the financial crisis we also saw a similar trend elsewhere in Pacific Asia, although the tendency for Asian investors to switch regularly between funds has slowed down somewhat since the crisis.

Calastone, we recognise that the key is to build an efficient infrastructure behind this distribution process. Our aim is to make funds accessible to investors and to simplify the challenge of processing transactions into and out of investment funds for fund promoters and distributors.

We believe it is only the largest asset management companies that have, so far, truly been able to take advantage of the benefits offered by the UCITS brand. Only the largest US- and Europe-based fund groups have established the capacity to distribute a flagship fund product into 30+ markets. However, changes to UCITS regulation will make it easier for smaller and mid-tier fund

We identify two primary drivers in the current market environment for fund distribution. The first is to simplify the access that investors have to fund products. The second is to improve the efficiency of investment funds markets - the efficiency with which investment funds are manufactured and distributed and the procedures through which fund transactions settle and asset servicing requirements are fulfilled.

Tony Wood: A key message is that we should not overcomplicate the process of buying and selling investment funds. Whether we are dealing with an institutional or retail investor, whether based in Europe or other parts of the world, typically the investor is looking for a product that is affordable, easy to understand and is in line with the level of risk that they are prepared to take in their investment strategy. A shortcoming of the investment funds industry is that it is very good at overcomplicating issues. As we continue to introduce technology and process innovations, there is even greater potential for well-intentioned, intelligent people in our industry to make issues even more complicated.

Sebastien Chaker: There is little doubt that UCITS IV will change the way that funds will be distributed in the future. At

managers – and also for asset managers from Asia, Latin America and other emergent fund regions – to benefit from distributing their flagship funds cross-border in Europe and beyond.

However, this trend will create greater pressure to standardise and automate the back-end of the industry, bringing greater efficiency to the processing of fund orders and the resultant settlement and asset servicing. Our focus is to improve the efficiency of the infrastructure sitting behind the funds industry and, as far as possible, to create a level playing field where every firm can benefit from this efficient and robust infrastructure, rather than just the larger fund providers and distributors as is the case currently.

Philippe Seyll: Reflecting on the develop-



ment of the investment funds industry, we have seen a significant shift in distribution patterns from a decade ago, when 90 per cent of cross-border sales of Luxembourg-domiciled funds were to investors resident in other countries in Europe. Now, more than 30 per cent of fund transactions processed by Clearstream are sourced from fund distributors situated in Asia. The major challenge for asset management companies is how they deal with this shift in cross-border distribution.

One implication, as we have noted, is that this has fundamentally changed the holding period for investment funds purchased. For the Asian investor, the holding period is substantially shorter than for the equivalent investor in Europe. This works contrary to the goal of Jean-Baptiste de Franssu, President of the European Fund and Asset Management Association (EFAMA), to attract 401(k) type funds into Europe-domiciled funds that will remain for a significant time in the fund and are invested with a longer time horizon. EFAMA would like UCITS to play a central role in European pension savings in a manner comparable to the role that mutual fund products have played in the US 401(k) pensions marketplace.

Supporting distribution in Asia and beyond

What global operational model do you use to support the cross-border distribution needs of your asset management customers – and to handle differences from jurisdiction to jurisdiction in registration requirements, tax and accounting procedures, client service expectations, and other local commitments?

Josée Denis: Typically, the investment funds industry continues to underestimate the level of investment that we are required to make as service providers in order to adapt to changing patterns in global fund distribution, and in the associated regulatory framework and infrastructure that support this worldwide distribution.

In developing our model of global distribution support, Asia has proven to be the primary testing ground for us so far as service providers. During the past 5-8 years, we have been at the forefront in supporting asset management clients as they extend their distribution reach into Asia and other



new locations – such that we now service cross-border distribution from our customers into more than 60 countries worldwide. This has demanded that we extend 22/6 processing to manage time-zone differences – and that we make sizeable investments in technology, people and training to ensure that we are prepared when a management company wishes to distribute products into new locations. In some of the more mature Asian markets, namely Hong Kong, Singapore, Japan and Taiwan, we have been providing asset servicing for approximately 15 years and we now extend services across 13 locations in the Asia Pacific region. Having said that, even though we have longstanding experience in these markets, China is a relatively new market for UCITS-type investment funds. Therefore meeting the needs of a Chinese asset manager proposing a QDII type structure in the Chinese market is a fundamentally different challenge and we must adapt quickly to enable our customers to respond to opportunities in this marketplace.

Etienne Carmon: This global distribution support function is fundamental to the

way that our business has evolved over the past 5-10 years. Classical TA has effectively ceased to exist in its traditional form. I cannot imagine a Luxembourg-based TA specialist providing a service that does not also support the cross-border distribution needs of its asset management customers.

Josée Denis: Ultimately our business lies in supporting our customer's global fund distribution strategy and that is what it has been for many years now. Traditional Transfer Agency services, the typical shareholding record keeping, transaction processing and reporting functions, are considered commoditised these days. When asset managers are looking to extend their footprint into a new market, they recognise that we are, in some cases, already supporting their distribution into 60+ markets and they will seek out our advice on how best to manage this process. We might sit together in a workshop, identifying how we can develop a market-entry strategy to support the distribution of (for example) their Luxembourg-domiciled, Irish-domiciled or Cayman-domiciled funds into a new location. From a TA perspective, every asset

management customer will be promoting a different suite of investment products, it will have different investor and distributor profiles and, thus, a different set of operational requirements. We face the challenge of centralising our operational processing on to a global platform wherever this makes sense, but retaining our ability to customise according to the specific asset servicing needs of the asset manager in line with their overall asset growth and global distribution strategies.

Sebastien Chaker: The demands placed on the TA will vary depending on whether the client is a local management company distributing fund products in its own domestic market or a large international asset manager with global distribution reach.

support distribution in Taiwan typically we need to have a master agent arrangement in place. And to support distribution in South Korea we may employ a sub-register structure. The result is that we need to build dedicated arrangements to support fund distribution in different Asian jurisdictions and in some instances it will make sense to find a local partner in order to facilitate this process.

Josée Denis: Each of the leading Luxembourg TA providers has set up a servicing hub in Asia during the past two to five years. There are also other Luxembourg based players part of the asset servicing value chain that have had to set up a servicing hub in Asia. For instance, a Luxembourgish financial printing provider has set up shop

Typically, the investment funds industry continues to underestimate the level of investment that we are required to make as service providers in order to adapt to changing patterns in global fund distribution, and in the associated regulatory framework and infrastructure that support this worldwide distribution.

In the former case, the TA may be viewed principally as a back-office provider handling subscription/redemptions, shareholder record keeping and core TA functions. For an international asset manager, TAs are being employed also as a source of expert opinion relating to operational, legal and compliance, and sometimes fund distribution, advice.

Julien Cuminet: As we have noted, when referring to Asia we are not talking of a single harmonised area. As providers of fund services we have a lot of differences to confront and we need to help fund promoters and distributors to manage that heterogeneity. Many Luxembourg-domiciled funds now distribute their fund products in Hong Kong and Singapore and we have well-established structures in place to support this distribution. However, to

in Singapore in 2008 in order to serve the Luxembourg-domiciled funds' reporting requirements in the Asia markets. Moreover, asset managers that we service cross-border are now also asking us to administer their domestic products – such that we now support for example a domestic Hong Kong Dollar fund out of our Singapore hub.

As cross-border service providers establish servicing hubs in Asia, domestic asset managers that until now have been doing their TA in-house are today considering whether perhaps to outsource to an international specialist provider. They see global players such as BNY Mellon setting up a local servicing hub in the region and question whether it makes sense for them to continue to manage these functions internally.

Having been present in Asia for a number

of years, we have well established procedures in place for managing the individualised needs of specific markets. The Taiwanese were some of the first investors to invest cross-border in Luxembourg-domiciled funds more than 20 years ago. Thus, we are long familiar with dealing with local master agents in this market – and with working with specific anti-money laundering (AML) regulations that require that we maintain a dedicated nominee service in this market.

Sebastien Chaker: A mark of the success of the UCITS brand, and particularly Luxembourg-domiciled UCITS funds, is that it is now relatively straightforward for an Asian asset management company to launch a Luxembourg-based UCITS and sell this across Asia. Approximately 17 Asia-based asset management companies now have a Luxembourg-domiciled fund for

extend their distribution. But international asset managers must be prepared to experience greater competition from domestic asset managers also eager to extend their sales locally. For this reason, it is important for UCITS fund providers to address any perceived weaknesses that might exist in their global operating models, whether these derive from time zone differences or other issues.

Follow the sun

Julien Cuminet: To address these time zone challenges, and to strengthen our regional operational capability more generally, BNP Paribas Securities Services has established a dedicated industrial centre in the Asian area in order to support local distribution and client service requirements. Through doing so, we have been

We believe it is only the largest asset management companies that have, so far, truly been able to take advantage of the benefits offered by the UCITS brand. Only the largest US- and Europe-based fund groups have established the capacity to distribute a flagship fund product into 30+ markets. However, changes to UCITS regulation will make it easier for smaller and mid-tier fund managers – and also for asset managers from Asia, Latin America and other emergent fund regions – to benefit from distributing their flagship funds cross-border in Europe and beyond.

distribution in Asia and we anticipate that this will increase in the future. One operational challenge that confronts this strategy, however, is that there may be a significant time difference between when the fund is valued and when the investor receives its confirmation. When a transaction is processed manually, the investor may receive its confirmation a day or two after it has dealt into the fund. Given the high standards of operational efficiency expected in Asia and the zero defect tolerance culture applied in many Asian industries, it is likely that Asian citizens may be concerned by this level of time delay.

Undoubtedly, Asia does offer good opportunities for Luxembourg-domiciled funds to

able to establish a ‘follow the sun’ model, whereby we can pass the book from Asia to Europe and from Europe to the US in order to service clients in their time zones throughout the working day.

Josée Denis: For BNY Mellon, we have committed major investment in recent years to developing a global TA platform that will support a ‘follow the sun’ model. However, it is one thing for a service provider to claim that it is global – and it is quite another actually to deploy a truly cross-border global service offering. It is clear that we need to retain flexibility within this global operational model in order to accommodate the differences between markets, and the specific preferences of local investors and dis-



tributors that we have outlined. As specialists in the TA world, we spend much time debating what a 'follow the sun' model is all about – and the degree to which local market specificities can be handled via a centralised global platform. Though the theory sounds relatively straightforward, the reality of delivering such a model is substantially more complex.

Sebastien Chaker: Looking at the investment funds industry today, there has been more than 10 years of significant investment into automation and standardisation – and yet if we look at the data presented by the most recent EFAMA SWIFT survey on fund automation, still 55 per cent of all orders coming into Luxembourg-domiciled funds are not communicated using ISO

standard messaging. We estimate that today less than 20 per cent of fund distributors are actually using ISO standard communication. Throughout this period, we have heard commentators blaming the distributors for not adopting ISO standard electronic messaging. However, at Calastone we have reservations about this line of argument. It is hard to find another industry where a manufacturer will ask a distributor to invest in technology in order to access its products. But this is exactly what is happening in the investment funds industry.

In times ahead, the key will be for the industry to adapt its drive for automation to the priorities of the distributor community. It is important that fund promoters seek ways to make their funds available on distributors' platforms at no additional cost to the distributor. That is what is required in order to make genuine advances towards full automation.

Tony Wood: This again brings us back to the danger of over-complication. The key is to develop services and infrastructure that can be re-used without forcing the customer to make constant investment in technology. We are under pressure as an industry to reduce costs and to eliminate operational risk from the system – but it is important to deliver these operational gains without forcing the customer to migrate repeatedly to new standards or systems.

We all recognise the benefits of standardisation. But ultimately the road to standardisation also bears a cost. And the overarching question is, who is going to pay? It should not be the end investor.

Sebastien Chaker: When a distributor decides to invest in technical upgrades, it will invest first and foremost in developments that will make its products more appealing to the investor. It may choose to spend on technology that delivers a competitive advantage relative to its competitors. But typically it will have little interest in investing in changes to its back-office simply to solve what is primarily the fund industry's problem. When distributors send orders by fax, it is typically the fund management company that will bear the

associated cost and operational risk – a cost ultimately that may be paid for by the end investor. Moreover, investment funds may be just one of a number of asset classes that a distributor will offer to the investor. Hence, the firm may be reluctant to invest heavily in changes that will benefit just one component of its overall product suite.

Philippe Seyll: In the past, the total expense ratio associated with a fund was often relatively low on the list of criteria that a retail investor employed when selecting an investment product. If the investor was bullish on the Asian market, for example, it would buy an investment fund that delivered exposure to this market, even though it may be asked to pay a sizeable front end fee to access the fund. As investors develop a better understanding of the cost and risk associated with investment products, they may question whether they are prepared to pay a large front end load to access funds in future. Instead, they might elect to invest via an exchange-traded fund (ETF) that provides comparable investment exposure at much lower cost. And if distributors are well remunerated for selling ETFs, just as they are for distributing investment funds, then ETF sales may accelerate in the future. You can also think of trading plain vanilla funds on a larger scale on exchanges – which is what we will be offering to our customers: From the first quarter of 2011, our clients will be in a position through our Vestima+ order routing system to buy and sell funds units – plain vanilla funds and ETFs – of the 80,000 instruments that we currently have on our platform via stock exchanges like Deutsche Börse.

Sebastien Chaker: Yes, and with the Retail Distribution Review in the UK, for example, some ETF providers are now reviewing ways through which they can gain access to retail distribution via the main fund platforms.

UCITS IV

Sebastien, you noted that UCITS IV will change the way that funds will be distributed in the future. You note that only the largest fund companies have



been able to leverage fully the benefits of UCITS so far. How will this change with the facilities extended under UCITS IV?

Sebastien Chaker: Two factors are likely to enable small and mid-sized asset managers to fully benefit from UCITS. The first is the new fund notification procedure, which will make it quicker, simpler and cheaper to register funds across European countries. Currently, it can be a slow process to register funds for distribution in a new European market. The new UCITS fund passport will expedite this process.

A second factor is the additional flexibility that will be extended under UCITS IV to fund management companies that

employ master-feeder structures. These amendments will allow a fund promoter to respond more easily to pockets of demand in specific markets or investor segments. A Luxembourg-based fund provider might identify demand from UK-based pension funds that may have a preference for a UK-domiciled investment fund product. UCITS IV will enable the management company to support distribution in the UK market via a feeder structure, with the master remaining in Luxembourg. Significantly, this will enable mid-sized asset managers and boutique players to extend their distribution reach into new markets that might previously have been dominated by local fund companies or the large global players.

ternational reach and they are eager to get a bigger slice of the pie. Until now, many such Luxembourg-based asset managers have been catering principally to a high-net worth and institutional marketplace, but they may now wish to look selectively at opportunities in the retail market.

For the larger asset manager that has extended its international reach into the Asia Pacific region, its next priority might be to extend distribution coverage in the Middle East or Latin America. For the mid-tier player, the message is, "we have a strong institutional base in Europe, let's look to expand our sales through moving into the Asian space." To do so, they will

Reflecting on the development of the investment funds industry, we have seen a significant shift in distribution patterns from a decade ago, when 90 per cent of cross-border sales of Luxembourg-domiciled funds were to investors resident in other countries in Europe. Now, more than 30 per cent of fund transactions processed by Clearstream are sourced from fund distributors situated in Asia. The major challenge for asset management companies is how they deal with this shift in cross-border distribution.

Julien Cuminet: UCITS IV will provide considerable flexibility to the asset manager. If you wish to remain predominantly local, you will have this option. If you wish to extend your global reach, you can take advantage of the UCITS brand and utilise a Luxembourg manufacturing hub to support this. Fund managers will have freedom to employ fund mergers, master feeder arrangements, the management company passport and a range of other tools to support their manufacture and distribution strategies. Given this flexibility, it is likely that management companies may deploy the facilities extended by UCITS IV in quite different ways and we are unlikely to see any single dominant trend emerging in the short term.

Josée Denis: UCITS IV is prompting the small and mid-tier asset managers to review their current offering. They have seen the benefits that the large global asset managers have realised by extending their in-

need to identify markets into which they can expand relatively quickly in order to build critical mass; and they must be clear about how they will refine their product to meet local demand. They will also need to adapt to the faxed-based environment that still prevails across sections of the Asian distributor community. To facilitate this process, facilities such as SWIFT Alliance Lite effectively provide a USB key to the small and mid-sized player that can be plugged into their desktop systems, providing an avenue through which they can send orders electronically through to the TA. Key infrastructure players such as Calastone, Clearstream and Euroclear have also been active in providing a facility for the distributor to route orders electronically.

In general terms, it is this sort of conversation that is currently dominating the strategy meetings that we are having with our mid-sized asset management customers.

The Luxembourg market retains a strong institutional base. But you service markets in Europe with a sizeable retail presence. How far will you be able to reapply some of this experience in extending your distribution support services in emergent Asian fund markets?

Josée Denis: The Luxembourg market has retained a consistent blend between its institutional and retail shareholder base for a number of years now: typically a range of 70:30 split between institutional and retail accounts. However, in the UK market, the picture is substantially different with a critical mass of retail shareholders and underlying transaction volumes. If one serves the UK mutual funds industry today, I believe this provides a good testing ground when China enters this industry in the future, where we might expect to process large volumes of shareholder accounts and transactions.

Asset managers have adopted a 'wait and see' approach so far in responding to the new opportunities extended under UCITS IV. There has not yet been a rush to start merging or pooling funds. For those with structures in place that already serve their cross-border distribution requirements across a number of markets, there has been no rush to consolidate their fund ranges in the first instance. Asset managers are taking care that by merging funds they do not close down existing distribution capabilities. Consequently, they have waited to see how the market responds to UCITS IV, how their investment sales are progressing and how investor preferences are changing in these locations ...

Sebastien Chaker: One key element is a lack of tax harmonisation in Europe and these fiscal considerations have been important in explaining why asset management companies have taken their time in reviewing how they could rationalise their different European fund ranges.

Josée Denis: It is interesting that as an or-



ganisation we have responded to UCITS III and UCITS IV in substantially different ways. As a service provider, the focus with UCITS III was very much with legal and compliances challenges presented by the new Directive. With UCITS IV, we have needed to consider how we help clients prepare Key Investor Documents (KID), manage registration procedures, handle tax reporting and a range of other topics outlined in UCITS IV. It is essential to be ahead of our clients in each of these areas so that we can explain key implications for their business. For this reason, we have set in place a sizeable UCITS IV delivery programme and dedicated project team in order to identify implications of the UCITS IV Directive and the enhancements to our service offering and service delivery in that respect.



And, with ratification of the Management Company Passport, presumably you have been giving careful consideration to the associated fund deposi- tory obligations that you have when overseeing remotely managed funds?

Etienne Carmon: Most certainly. At CACEIS, we have established a UCITS IV community that draws together expertise from representatives from a wide range of areas of the investment funds industry. UCITS IV creates new opportunities for management companies that market their funds cross-border. However, it also creates openings for our company in providing distribution support and we must be careful to take advantage by extending the services and advice that we offer to the asset man-

ager and their distributor network. This is a step beyond what we set in place when responding to UCITS III.

Promoting post-trade efficiency

To what degree have risk consid- erations driven fund counterparts to review their existing fund settlement arrangements? Under direct settlement arrangements, a distributor may need to pre-fund the cash account and to bear a settlement risk until transfer of title of the fund units. Is this pushing distributors towards a DvP settlement facility for investment funds?

Philippe Seyll: Settlement risk is an impor- tant consideration but it is not exercising distributors sufficiently at this stage to prompt large numbers of distributors to jump towards a DvP settlement facility such as that offered by our Central Facility for Funds (CFF).

That said, there is still a gap between the simplicity attached to trading, clearing and settling equities and the complexity of trading and settling investment funds. It is important to improve the efficiency with which one can synchronise the cash transfer against the exchange of units when buying or selling investment funds. We should be campaigning for a more stand- ardised settlement system that will reduce settlement risk.

Julien Cuminet: But this, again, will be de- pendent on cost. And it is far from certain that there is a strong economic case for committing to this investment.

Sebastien Chaker: This represents a size- able leap from the way the market operates in many jurisdictions today. DvP settlement solutions were created principally to mitigate counterparty risk in the secondary market trading of securities. But in the investment funds' primary market model, the dominant risk is an issuer risk – and this issuer risk is managed carefully under the UCITS regime, which aims to ensure high standards of protection to the investor and a high level of transparency around the product.

We recognise that some fund distributors may push for DvP settlement for their cross-border transactions, but we anticipate that this will remain a relatively small part of the market for some time to come.

Tony Wood: What fund counterparties essentially look for from their settlement providers is certainty – certainty that the cash will move on the intended settlement date and that transfer of title will also happen at this time. Whether or not we choose to label this DvP settlement, the fundamental requirement for the trading party is that its service provider can offer surety regarding the transfer of cash and fund units, and that it can reconcile these respective transfers.

Philippe Seyll: In pushing for advances in operational efficiency and risk management in the funds industry, we endorse the 10 recommendations advanced by the International Securities Services Association (ISSA) and believe these provide a sound foundation for future development activity. The ISSA recommendations aim to make trading and settling an investment fund more comparable to trading and settling an equity or fixed income security. We have talked in detail about order routing, but the post-trade element is also very important. It is valuable to provide a centralised settlement environment for fund transactions, providing DvP exchange of cash and fund units, but without losing the flexibility currently extended by the fund promoter-transfer agent-distributor relationship that is well established in some jurisdictions in Europe and worldwide.

Moreover, at Clearstream we believe that there is life after settlement of an investment fund transaction. We have been evaluating mechanisms through which investment fund units could be re-mobilised and used to collateralise other transactions, whether this might be for securities lending, OTC derivatives trading, repurchase agreements and so on.

Josée Denis: The funds industry is subject currently to a huge weight of market changes driven by regulatory and industry developments. The challenge is to prioritise these major endeavours and be operation-



ally ready to support these in the very near future. Our enduring goal is to hand hold and educate our fund clients, and by association their distribution community, as to the ease and efficiency of doing business in their products. The combination of transfer agency service being offered in parallel with a dedicated distribution support service offering is relatively new to the market, but is soon becoming a key given for global asset managers. Most of the global asset servicing providers today are investing in resources and technology to deploy this type of combined offering.

Moreover, there are a few industry developments that will impact the overall Luxembourg fund industry's operating model. The implementation of a Luxembourg CSD (by

Clearstream in association with the Banque Centrale de Luxembourg) in 2011 will have an important bearing on the direction that funds' order routing and settlement will take in the Luxembourg fund industry. This will also shape how we interface as a market with a centralised TARGET2-Securities settlement platform, expected to go live in 2014. With this in mind, we are conducting a

Talking to key players across the investment funds marketplace, it seems there are questions regarding the cost of settling investment funds via T2S. Will the process be cheaper than existing arrangements when all associated costs are taken into account – including, for example, intermediation costs? A second concern is transparency: it will be necessary to address questions

As fund promoters extend their reach into Asia, they may find themselves engaging with a fundamentally different investor culture. For example, recent survey data highlights the short typical holding period when retail investors in mainland China buy fund products in the local market: approximately 55 per cent of purchases by Chinese investors in local fund products were sold again within 6-12 months and only three per cent of investment transactions rested for more than three years in the same fund. Before the financial crisis we also saw a similar trend elsewhere in Pacific Asia, although the tendency for Asian investors to switch regularly between funds has slowed down somewhat since the crisis.

major review of our operating model to predict how we will need to change in line with these developments. Will distributors drive fund settlement towards a T2S platform? Or will the TA-based model of investment fund settlement that is well established in Luxembourg continue to prevail?

Sebastien Chaker: Implementation of the TARGET2-Securities platform may have a radical impact on the way that investment funds settle in Europe. But at this stage it is hard to predict how deep the impact of this project will be. For many of the largest fund markets globally, fund order processing takes place directly between the distributor and the transfer agent. This applies in the US (mainly via the NSCC- FundServ). The world's largest fund market in Luxembourg operates predominantly via a direct TA model, as does the UK and a range of other jurisdictions. France provides a clear exception; and, to a lesser extent, so too Germany. But at this stage it is uncertain whether the introduction of LuxCSD and the implementation of T2S will prompt distributors to drive settlement through T2S, rather than maintaining their direct relationship with the fund promoter or its appointed Transfer Agent.

relating to KYC, AML and commission processing, among other issues, when T2S settlement for investment funds goes live. Finally, with about 30 per cent of Luxembourg-based UCITS holdings held by non-European investors – and close to 40 per cent of these funds do not settle in a T2S eligible currency – many observers fear that T2S could limit the global appeal and future expansion of UCITS products.

Automating across the transaction lifecycle

What key steps are needed to encourage small and mid-tier distributors to communicate fund orders electronically? And via ISO standard messaging?

Sebastien Chaker: To set the scene, automation has been the privilege of larger distributors and larger asset managers, along with the smaller asset management companies that have outsourced their investment operations to an asset servicing specialist. However, for those distributors (for example a mid-sized private bank) for which investment funds processing is important but not

a core business, they may continue to communicate fund orders by fax rather than by electronic messaging.

This challenge confronts us each time when an asset manager extends its coverage into a new market. For fund providers, this has an impact on costs. A TA might charge the fund 4-5 times the fee to process an order communicated by fax rather than one that is communicated electronically.

In each case, the questions that we confront are similar. Why should I, as a distributor, invest to make the transition to electronic messaging? There is minimal cost attached to sending an order by fax. And why should I, as a distributor, invest to adopt the standards of the fund industry?

At Calastone, we have taken the stance that the fund industry needs to adapt to the needs of the distributor – starting from the premise that this is fundamental for a fund promoter to be able to make its fund products accessible to its distributor

Polish market. But when we examine the associated costs, it may compromise a business case to expand in this market without an automated process in place. It is unlikely that Polish distributors will invest in SWIFT capabilities in the near term; and few Polish firms are likely to outsource their investment processing. Consequently, we need to set channels in place that will link fund providers with their distributors electronically and without presenting additional cost to the distributor community.

Julien Cuminet: We do not have a single international standard and a single international carrier. SWIFT is extending its reach into Asia, but use of the SWIFT network is not as well established in Asia as it is in Europe.

Josée Denis: SWIFT is working closely with the Asia Fund Automation Consortium (AFAC) and other industry bodies in order to promote communication via ISO standard messaging in Asia. The Asian funds industry is not moving through the same path that we mapped out in Europe of moving from

Automation has been the privilege of larger distributors and larger asset managers, along with the smaller asset management companies that have outsourced their investment operations to an asset servicing specialist. However, for those distributors (for example a mid-sized private bank) for which investment funds processing is important but not a core business, they may continue to communicate fund orders by fax rather than by electronic messaging. This challenge confronts us each time when an asset manager extends its coverage into a new market. ... A TA might charge the fund 4-5 times the fee to process an order communicated by fax rather than one that is communicated electronically.

community. In building the translation service that we offer, we were catering for this need within the funds industry. In extending this service, our first testing ground has been in Asia: our first non-UK clients were Taiwanese distributors that were sending orders into Luxembourg- and Irish-domiciled funds. We now see demand for this service in emergent fund markets in Europe, in Asia and in other parts of the world. For example, there are strong opportunities for international fund providers to extend their distribution reach in the

fax via proprietary standards, ISO 15022 standard messaging and on to ISO 20022. The advantage for Asia is that they are coming straight into the ISO 20022 world. SWIFT has been active in Asia for five years or longer in running local workshops in order to educate the funds community regarding the benefits of communicating via the ISO 20022 standard funds messages.

However, we also need to be sensitive to cultural issues in promoting these developments. It is inappropriate, simply because



the European funds industry is more mature, to be overly aggressive in telling the Asian fund manager and distributor what is good for them.

Tony Wood: The fund industry welcomes standardisation. But the important point about standardisation is that this must fit the business process for a majority of the industry and it must work effectively in each market. Looking to experience from the UK market, EMX was built around the FIX protocol on the grounds that many market participants were already using FIX order management systems to support transactions in other asset classes. We built the EMX order routing service according to the principle that this would be free to use for the distributor. But the key when investing in automation is not whether this is cheap or expensive, but whether it provides value for money. For a small distributor, value for money might be the ability to enter orders through a web-based interface or an upload file. As their transaction volumes increase, the distributor may wish to support FIX or ISO 20022 XML since it can identify benefits through doing so further down the line.

On balance, the key to standards adoption is to define the standard around the business process, not around the protocol. It does not truly matter whether the message is FIX or XML: what matters is that the industry makes consistent use of message fields or tags available within each message set, such that a message standard is not simply adopted, but it is applied in a consistent way.

Philippe Seyll: When distributors consider whether to adopt ISO standard messaging, the question is typically how will this benefit my firm. When we do see significant advances, it is often when a senior manager within an organisation takes a global strategic view across the firm and decides that there is business advantage to be gained by implementing such a development. We are, of course, fully aware of the importance of standards in the quest for automation. Our approach is to make standards part of a bigger package which brings value to distributors. We do promote execution, settlement and custody solutions which are banking services (i.e. not standard). We do promote solutions supported by strong financial cases, which executives of

distributor companies invest in knowing the return that they receive both in terms of money and operational risk reduction.

Tony Wood: It is important that firms are taking this key decision at a strategic level, rather than pushing it towards the operations staff to decide. Operations teams are under constant pressure to deliver cost savings, they may have tight caps on their budgets and they may be unable to find the resources required to drive a major strategic change of this sort. Often it is capacity issues and the need to manage peaks and troughs in transaction flows that swings senior management behind the project. Senior managers may value the benefit of making the firm insensitive to transaction volume volatility by automating their processing. Future market leaders are prepared to invest in automation and standardisation as they have the confidence that their products and services will compete more effectively in an efficient, low-cost global market.

Sebastien Chaker: At Calastone, we support efforts by key industry bodies to progress with a migration to ISO 20022 standard fund messaging. However, we must not underestimate the cost of implementing the new standard. Some fund promoters, transfer agents and distributors have already adopted ISO 15022 standard messaging and have realised efficiency gains through this conversion. They are now being asked to invest again to move to an ISO 20022 standard messaging that will replace what they already have, offering limited efficiency gains.

Whereas some may see the transition as presenting a challenge for distributors that move early to ISO 20022, we believe that interoperability addresses this concern. A distributor in Asia that supports ISO 20022 standard messaging, for example, may find that it has a limited number of counterparts that can receive orders in this format. Many are still set up to receive ISO 15022 messages. This may deter some firms from transacting. But this is where a 'message translation service' comes into full effect – to ensure interoperability between these co-existing standards.



Julien Cuminet: Service providers have invested heavily in middleware applications in order to convert between these co-existing message formats. Given the global reach of some asset management companies, they will continue to transact with different types of distributors in many different locations. These may employ different order routing systems, different messages formats and it is necessary to take these in and translate them as necessary.

Josée Denis: That is a must. For many of us in the transfer agency and distribution support world, this investment in middleware applications has been a major outlay. Central to the distribution support function is a piece of middleware that enables us to take

in orders, translate this across to the protocol employed by our internal systems and then to reconvert into a format required to communicate back to distributors and investors.

Concluding thoughts

Etienne Carmon: In drawing thoughts from this panel discussion together, we recognise that from a service provider standpoint the standalone transfer agency service is not sustainable any longer and we have moved early to adapt through supporting asset managers' global distribution. The transfer agency remains a core specialism from which

Kong, Singapore, Taiwan and other Asia Pacific countries – but they may expect strong local competition as the investment funds marketplace matures in all emergent Asian locations, including China mainland.

Sebastien Chaker: Hong Kong and Singapore are engaged in competition at present to become the fund centre of Asia. Malaysia has been building its reputation as an Islamic funds centre. China also has huge potential as a funds market. However, the Chinese domestic funds market is likely to be sufficiently large that it will remain predominantly domestic – at least for the foreseeable future.

Ultimately our business lies in supporting our customer's global fund distribution strategy and that is what it has been for many years now. Traditional Transfer Agency services, the typical shareholding record keeping, transaction processing and reporting functions, are considered commoditised these days. When asset managers are looking to extend their footprint into a new market, they recognise that we are, in some cases, already supporting their distribution into 60+ markets and they will seek out our advice on how best to manage this process.

we can extend a customised suite of broader services. Within the past 12 months, we have opened a Hong Kong office to service our asset managers that wished to distribute Luxembourg-domiciled funds more widely in Asia – and we have been able to help them build their distributor community and to manage the operational, regulatory and fiscal complexity that may accompany this process. We also support the global distribution of funds domiciled in Ireland, France, Bermuda and Hong Kong, including fund promoters that do not employ CACEIS to support their local TA.

As asset managers extend their footprint in Asia, they should not underestimate the capacity of local fund providers to develop UCITS-like funds that are domiciled locally and will aim to mirror the characteristics that are integral to the UCITS brand. Clearly international asset managers have had considerable success in distributing Luxembourg-domiciled UCITS into Hong

Josée Denis: To support our customers' cross-border distribution strategies, it is important that we become counsel to the asset management companies that we work with. This may take various forms. If the asset manager wishes to distribute in Asia, it might approach us to share our knowledge on the prominent distribution channels in those markets. For an asset manager extending its reach in Europe, it may want advice on the competing facilities that are available to support automated order routing and settlement. We can explain the relative strengths of the Central Facility for Funds, FundSettle, Calastone's Transaction Network and any other competing facilities, thereby providing the customer with a palette of options. It is then for the customer to decide what will best suit its own distinctive distribution trademark and processing requirements. We aim to make it as seamless as possible for the investor to transact in an asset manager's fund range. We are currently enhancing and devel-

oping a distributor-centric front end portal that will allow distributors to trade into a range of clients' funds that are sitting on our database. And now, with the gradual extension of open architecture, increasingly we will have to provide distributor access to third-party funds from fund promoters with which we do not have a longstanding TA or distribution support relationship.

Philippe Seyll: During the recent crisis, promoters, distributors and investment management companies looked very thoroughly at their cost structures and the way they manage their P&L. This led to a surge of developments that brought end-to-end solutions to fund distribution. However, the way forward in our industry is certainly not just centralisation nor automation. A system that satisfied the distribution side, but that did not meet the needs and requirements of all players in the industry, would not have a chance of survival. We believe that it is our responsibility in the industry to build attractive solutions that we can propose to support the distributors, promoters and asset managers in their business development. I also believe that the only way forward is to treat units of investment funds as if they were equities, which means applying the recipes of the equities world to the fund world. This starts by supporting secondary markets trades to ease the access to ETFs or AMTFs (Actively Managed Traded Funds) and ends with allowing offshore funds to be mobilised as collateral. This will add to the competitive nature of investment funds as an asset class.

Tony Wood: During this discussion, we have reflected on the characteristics of investment funds that make them an attractive investment vehicle for the retail and institutional investor – providing a good spread of risk with a specialist fund manager taking care of the asset management. It is important that we support an environment in which investment funds can compete on a level playing field with other asset classes such as equities and ETFs. This is not to say that investment funds need to be priced the same as equities. But it should be as straightforward to trade, settle and reconcile investment funds as it is to trade equities and other securities. And, as

important, investors must see that they are receiving value for money from their fund investments.

To facilitate this, our priority at Euroclear is to provide a global funds infrastructure which offers to fund counterparties – whether they connect by FIX, ISO standard messaging or another medium – a choice of order routing, settlement and asset servicing facilities to support their domestic and cross-border fund transactions. Moreover, we must supply this without distributors and promoters needing to invest large amounts to connect to their counterparties, regardless of where they are located in the world.

Ultimately, automation and standardisation are important tools to support this objective. In a manual world, it remains problematic to drive down the cost of fund investments. Without further automation, I fear that we may sit around a debating table in 2015 discussing a similar set of risks and inefficiencies that confront the investment funds industry today.

Julien Cuminet: I agree that as a strategic goal, and on the whole as an industry, we will continue to drive for operational efficiencies equivalent to those achieved for processing equities and fixed income securities. But given the challenges that we have highlighted, it will be difficult to be sure of the timeline for delivering this objective. A priority for BP2S is to manage the transition period, helping our clients to negotiate the complexity and to comply with the host of regulatory changes that we anticipate during this period.

In doing so, we have three core objectives: to offer simplicity, flexibility and to extend a global presence, such that we can support the distributor wherever it is situated. We must be flexible in order to insulate the customer from the multiple standards and protocols that will co-exist during this transition period. We must offer simple access to fund products – and to support this we have invested heavily in our Regional TA service, providing a single point of access for the distributor to a broad array of collective investments and alternative investment products. We must offer simplicity,

recognising that the distributor and the investor will in most cases not be in a position to manage these operational complexities through their own internal capability.

Josée Denis: ALFI has been organising road shows in Asia since 2007 and typically it has offered workshops on alternative investment products as part of these sessions. This has been important in familiarising the Asian funds community with Sophisticated Investment Funds (SIFs) and other Luxembourg fund structures that provide an umbrella for alternative investment strategies.

Sebastien Chaker: A number of asset managers, when they have first sought to extend their distribution cross-border, have elected initially to do so via a SIF structure. This has enabled them to market their funds in the first instance to high net-worth investors and institutional clients. When they have gathered assets into the fund and are comfortable with its operation, they may then decide to extend the product into the retail world and to meet the higher standards of investor protection and regulatory oversight that are applied to a UCITS fund. ■

Contact details

Tony Wood

Head of Euroclear Fund Sales
Euroclear SA/NV
Charrington's House
The Causeway
Bishop's Stortford
Hertfordshire CM23 2ER
United Kingdom

Tel: + 44 (0)1279 858363
email: tony.wood@euroclear.co.uk

Philippe Seyll

Executive Vice President
Member of the Executive Board
Head of Investment Funds Services
Clearstream Banking
42, Avenue JF Kennedy
L-1855 Luxembourg

Tel: +352-2 43-3 25 10
Fax: +352-2 43-63 25 10
email: philippe.seyll@clearstream.com

Josée Denis

Global Product Management,
Global Fund Services
The Bank of New York Mellon
2-4 rue Eugene Ruppert Vertigo Building - Polaris
L-2453 Luxembourg

Tel: +352.2452.5404
email: josee.denis@bnymellon.com

Julien Cuminet

Deputy Chief Operating Officer – Asset and Fund Services
BNP Paribas Securities Services
ACI CPD04A1
9 rue du débarcadère
93500 Pantin
France

Tel: +33 (0) 1 42 98 23 98
email: julien.cuminet@bnpparibas.com

Etienne Carmon

Head of International Product Development
CACEIS Investor Services
5 Allée Scheffer
L-2520 Luxembourg

Tel: +352 4767 2263 - Fax +352 4767 3263
GSM + 352 621 99 2263
email: etienne.carmon@caceis.com

Sebastien Chaker

Managing Director
Calastone Transaction Network
Luxembourg Branch
5, Rue Jean Monnet
L-2180 Luxembourg

Tel: +352 264 20 570
Fax: +352 264 20 664
Mobile: +352 691 888 813
email: sebastien.chaker@calastone.com
Web: <http://www.calastone.com>