SMPG

Global Meeting

Investment Funds Working Group

Minutes (draft 1 – 10 December)

Oslo 15th - 17th October 2012

**Revision History:**

[1] 1st draft *(SMPG-IFWG-GM-MIN-Oslo-Oct-2012 v0 1.docx)* circulated to the attendees of the Oslo meeting 10 December 2012.

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# Attendees

|  |  |  |  |
| --- | --- | --- | --- |
|  | NO | Svein R. Borgersen | SB |
|  | NO | Pal Bergquist | PB |
|  | DK | Niels W. Hougaard | NH |
|  | DK | Henrik Kjærbye | HK |
|  | SE | Henrik Staffas | HS |
|  | GB/Co-chair | David Broadway | DB |
|  | XS(E)/Co-chair | Nadine Muhigii | NM |
|  | IT | Andrea Milanesio | AM |
|  | LU | Charles Bonniver | CB |
|  | BR | Ana Abidor | AA |
|  | XS(C) | Tomas Bremin | TB |
|  | Facilitator | Janice Chapman | JEC |

**Apologies**

Rudolf Siebel (DE)

# Agenda

* NMPG updates
* National Approaches to Charges and Commission
* Gross and Net Amounts Definitions
* Wider review of order market practice
* Corporate action events for funds and terminology
* Any other business + wrap up

# SMPG investment Funds Organisation

* + - * + **Co-Chairs**

David Broadway / Investment Management Association (GB)

Nadine Muhigiri / Euroclear (XS)

* + - * + **Facilitator**

Janice E. Chapman / S.W.I.F.T. Scrl

* + - * + **Steering Committee Sponsor**

Rudolf Siebel / Bundesverband Investment und Asset Management e.V. (DE)

# Objectives of the meeting

# NMPG Country Updates

## Clearstream

Still making progress with the on-boarding of customers on MX. Getting some experience with smaller institutions, who run into many problems. There are some customers that still do not know about the migration from ISO 15022 to ISO 20022.

Vestima Track went live with a “ transparent statement of holdings message” – a message created by Clearstream itself. It ‘opens’ up the omnibus account at TA right down the customer chain. Will move this have this message approved by ISO 20022

Clearstream is also involved in the single-leg transfers project as well (Findel).

## Brazil

Working on Securities Balance Accounting Report – try to work out how to fit in data. Fixed income, convertible bonds – will be submitting CRs. Want to adopt MX July next year. All fund managers next year will have to send statement reporting all fund expenses – trying to standardise the information that will be sent– maybe to use SO 20022 message.

## Denmark

No market implementation group as such. Working on orders (+bulk). Intend to use price report and custody statements. Have defined 22-24 MX messages for use with the system (VP is developing a system for registering funds - this includes order handling, routing, registering of funds, etc). Started the development of the system – intend to go live in March 2013 - - nothing is in ISO 15022 – all in ISO 20022

## Euroclear

Main topic for work is SLT within the Findel WG. May start piloting early next year.

## Italy

In September 2011, a project was started by a working group comprising financial operators representing the different types of players concerned, and supported by a number of banking and fund manager associations (ABI, Anasf, Assogestioni, Assoreti and Assosim) The group was formed under the auspices of the supervisory authorities Consob and Bank of Italy

The goal is to implement best practices for fund processing (order, account, transfer and FPP) and to migrate from preparatory message formats to ISO 20022. The testing phase has now started (all analysis of ISO 20022 is done, this led to the submission of CRs) – testing is to be completed at the end of December. Live migration starts in January for completion June. 20 institutions + 10 vendors will be exchanging MXs in ISO 20022. We are encouraging the uptake with 10 distributors & other institutions in Italy. Have issued guidelines for fund messages for domestic use. Requires translation into Italian. Have guidelines for domestic and cross border. These shares the same basic single mode.

Have also looked at basic corporate event funds –using the order confirmation messages (fund merge, fund closure and dividends) as a temporary solution.

## Luxembourg

Almus has been reviewing SMPG open items such as the definitions for gross & net amount, the matrix of charges and commission types, corporate action events (have defined the main events). Next steps are to revisit the LU message templates – these needs to be verified and updated as necessary . Thus will start in November and the MyStandards tools and platform will be used.

Findel Single Leg Transfer (SLT) project: the initial pilot group has been extended to non-Findel institution, such as Euroclear and Clearstream. IT banks have expressed intention to be part of the pilot. The definition of a process has been agreed. The work is now focussing on specifying how the ISO 20022 portfolio transfer and transfer messages are to be used.

Findel Statement: there are plans to publish final market practice for the statement of custody statement.

ISO SEG and Evaluation Team activities: (Charles Boniver is investment funds facilitator for the SEG Evaluation Team. There is to be a maintenance on the funds account management (acmt), price report (reda) & portfolio transfer and transfer (sese) messages. All changes requests submitted for the relevant messages are accepted at SEG level. There is a late CRs from IT because of change in legislation. This late change request was covered in an ISO 20022 ET session 16 October during the SMPG meeting.

Almus have just published now an explanation of the funds ISO 15022 to ISO 20022 migration.

## Norway

Working on the implementation of new price report, orders and account management. Focus is on implementation of ISO 20022 – VPS is changing all interfaces to 20022. Reporting from transfer agent to all custodians to be ISO 20022. Statements and confirmation messages are part of the reporting (this stretches the standard somewhat).

Some large fund companies starting to use ISO 20022 cross border (Skagen and Odin) UK-NO, SE-NO flows. Plus some of the hubs. Big promoters of ISO 20022

## Sweden

Started working with MyStandards with the orders and going through all the draft messages for SE market. Many discussions – gross and net amount. Lots of discussion on currencies.

## United Kingdom

Published market practice for transfers at portfolio and underlying asset level. Version 1 was published in May 2012. Market practice is confined to the unwrapped portfolios, the underlying assets are funds.

Version 1.5 is being worked upon, this is being extended for the movement of pension portfolios This seem to complicate things. Looking at fund assets but also other assets, such as equities – this cuts across to S & R. This is a challenge in terms of formulating the market practice for publication. Next steps, bring it together into a version 2 – plus some fixes. Plus update for 2013 release in February.

Orders: In May 2012 the group started a review. But work actually became focussed on Conversions (a standalone market practice.) A conversion is a switch between two shares classes in same fund. This is regarded as a separate kind of transaction, more like a corporate action. There are no actual redemptions and subscriptions. The group is trying to see if the switch message will work for this, it seems to be the best fit, although with workarounds are required (For example, conversion factor will go into the extended price). Not sure if institutions will use ISO 20022 but at least this work will be a benchmark for others to follow. Norway has a similar issue – will use switch messages for this with a tax exemption. Draft market practice has been developed using the MyStandards in parallel. Draft is out for comment so that next month should be possible to publish. Following this, will come back to the wider review of the order market practice.

Statements – produced a draft – but this was parked because of other commitments. There is little or no interest to implement statements in UK so it is difficult to get interest.

Issue that Extension1 MC will no longer be permitted in MX. It’s replacement by Extension2 takes away the notion of a quick fix.

**ACTION**

JEC to follow up

# National Approaches to Charges and Commissions

This was a review of the spread sheet “Charge and Commission Type Usage Country Matrix\_v8.xlsx”.

## Charges

### New Definitions agreed

|  |  |
| --- | --- |
| **Charge** | *An amount paid by the investor to the distribution chain and/or fund or promoter* |
| **Commission** | *An amount paid by the fund or fund promoter to the distributor chain* |

If these definitions hold true, then commission is never part of gross or net amount! However, this is not the case for the Italian market and in the MP document, the following footnote is needed:

“*In some markets, the investor is ultimately paying the commission because this is either part of the price of the fund or included in the charge*.” (wording TBC)

**ACTION:**

Update SMPG MP document with the definitions, footnote and scenario descriptions.

### Charge Type Code DISC – Discount definition

The definition reads as *“Charge that has been reduced from the standard initial charge levied by a fund, eg, during a launch period or as negotiated by a funds supermarket / discount broker.”* This definition is too specific. Verify if a change request already exists for a change of definition; if not SMPG needs to create definition.

The definition should be changed to something like: *“Charge that has been reduced by a fund.”*

**ACTION:**

Verify if a CR already exists to change the definition of Discount code. If not, then draft the CR.

### Charge Type codes NOT used

|  |  |
| --- | --- |
| Subscription Order | BEND, CDSC, DLEV, PENA, POST, PREM, REGF, SHIP, SWIT |
| Redemption Order | DLEV, FEND, INIT, PENA, POST, PREM, REGF, SHIP, SWIT |
| Subscription Order Confirmation | BEND, CDSC, PENA, POST, PREM, REGF, SHIP, SWIT |
| Redemption Order Confirmation | FEND, INIT, POST, PREM, REGF, SHIP, SWIT |
|  |  |
| Switch Order- subscription leg | BEND, CDSC, DLEV, PENA, POST, PREM, REGF, SHIP |
| Switch Order - redemption leg | DLEV, FEND, INIT, PENA, POST, PREM, REGF, SHIP |
| Switch Order Confirmation – subscription leg | BEND, CDSC, PENA, POST, PREM, REGF, SHIP |
| Switch Order Confirmation – redemption leg | FEND, INIT, POST, PREM, REGF, SHIP |

### Charge - Extended Type Codes used

|  |  |
| --- | --- |
| Subscription Order | FOEX – CR already submitted (IT) |
| Redemption Order | FOEX – CR already submitted (IT) |
| Subscription Order Confirmation | FOEX – CR already submitted (IT) |
|  | SDRT (GB) |
|  | CADR (GB) – post 31 December 2012. (Subscription only). A code called ‘distributor fee’ would also work |
| Redemption Order Confirmation | FOEX – CR already submitted (IT) |
|  | SDRT (GB) |
|  |  |
| Switch Order | FOEX – CR already submitted (IT) |
|  | SDRT (GB) |
| Switch Order Confirmation | FOEX – CR already submitted (IT) |
|  | SDRT (GB) |

**ACTION**

Verify if UCITS used on any of the order and confirmation messages.

Verify of CDPL really used in a subscription or redemption order.

Verify use of CBCH on switch messages.

## Issue on Structure of the Charge Details sequence

### Waiving & Discount

Italy needs to quote ‘waiving’ on a charge. Currently, they have to use a work-around. It is not possible with the current message structure to link DISC to another charge type.

In LU DISC is an absolute, the DISC is on the deal amount. In Italy the opposite happens, it’s relative.. AFAC is the same as LU. So there is a need for relative % and an absolute %.

**ACTION**

Draft a potential new charges sequence without negatively impacting existing users. (JEC).

### Total Amount of Charges (confirmations)

In the confirmations, it should it be possible to have a total element without the breakdown. Currently the messages don’t allow this.

**ACTION**

Verify if a CR already exists to change the multiplicity of Charge General Details \ Charge Details to optional. If not, then draft the CR.

## Commissions

The definitions of FEND and CDPL are very similar:

|  |  |  |
| --- | --- | --- |
| FEND | FrontEndLoad | Commission for subscribing to an investment, paid at the time of the subscription. |
| CDPL | CommissionDePlacement | Amount of cash due to an intermediary for selling a product, or services, to a third party. |

The CDPL code has a better definition.

**ACTION:**

Check of CDPL is really used. Perhaps if the code is not used, it can be deleted, but then its definition could replace the definition of FEND ?

### Extended Type Code

Norway has specified three extended codes for commission, which are to be reviewed and perhaps re-defined as charge types (will require a change request to ISO 20022).

### Total Amount of Commissions (confirmations)

In the confirmations, it should it be possible to have a total element without the breakdown. Currently the messages don’t allow this.

**ACTION**

Verify if a CR already exists to change the multiplicity of Charge General Details \ Charge Details to optional. If not, then draft the CR. Would this change also be applicable to Tax General Details \ Tax Details?

### Charges and commissions on switch legs - recommendation

**SMPG recommendation**: The fund prospectus should always be adhered to. If nothing is specified in the prospectus about charges and commissions on a switch, then the recommendation is to only, if necessary, specify charges and commissions on redemption leg.

### Switch

**SMPG recommendation**: For cross-border, only one-to-one switches are recommended, that is one redemption leg and one subscription leg. The switch is redemption driven.

## Next Steps

|  |  |
| --- | --- |
| 1 | SMPG to agree on what charge codes and commission codes are to be specified as part of the global market practice and the message usage specification for MyStandards are be updated accordingly. |

# Net and Gross Amount Definitions

The following definitions were agreed:

|  |  |  |
| --- | --- | --- |
| Subscription order & confirmation | Gross Amount | Amount of money to be paid by the investor when subscribing to fund units.  Gross amount = (Quantity \* Price) + (Overhead)  Overheads may include charges, taxes and, in some markets commissions. |
| Net Amount | Amount of money invested in the fund.  Net Amount = Quantity \* Price |
| Redemption order & confirmation | Net Amount | Amount of money paid to the investor when redeeming fund units.  Net amount = (Quantity \* Price) - (Overheads)  Overheads may include charges, taxes and, in some markets commissions. |
| Gross Amount | Amount of money redeemed from the fund.  Gross Amount = Quantity \* Price |

# Orders Market Practice

*See document “Fund order execution lifecycle (v2).pdf”. The diagrams in this document are UK specific. The markets agree that the NAV is calculated before execution.*

## General

SMPG MP is for forward pricing only. We need to find a place in the SMPG MP to state these underlying premises.

## Order Date Time

|  |  |
| --- | --- |
|  | Order Date Time |
| Order messages | Date the investor places the order. |
| Confirmation messages | Date and time at which the order was placed by the investor.  (This is echoed back from the order.)  (English of the definitions in a future need alignment at a future maintenance.) |

SMPG Market Practice: Order Date Time is to be changed from ‘Do not use’ to mandatory element.

## Expiry Date

Used in FR market practice.

## Requested Future Trade

Used in DE and NO market practice.

## Reference Date

This is a **UCITS** requirement. For forward pricing, SMPG has determined that is the same as trade date.

## Order Receipt Date

This is a **new** requirement. This is the date the TA logs the order in its ‘system’. Italy have a need for this date and have submitted a change request. In the interim, IT has defined the use of an extension sequence as a workaround. SMPG market practice has agreed that ‘order receipt date’ is to be part of the global market practice

**ACTION**

SMPG market practice will specify this date using an extension in the confirmation messages. It is to be stated in the global market practice that the provision of the ‘order receipt date’ can be provided in one of two ways, either in the confirmation or with the Order Instruction Status Report (status = RECE) message.

## Trade Date

|  |  |
| --- | --- |
|  | Trade Date Time |
| Confirmation messages | Date and time at which a price is applied, according to the terms stated in the prospectus.  (This is reported in both redemption and subscription legs of switches) |

There was a discussion about whether or not the Trade Date Time element should be renamed to ‘NAV Date’. It was agreed that this would place an unnecessary burden on those institutions that have already implemented as this would mean changing the name of a mandatory element by institutions that are already ‘happily’ using the messages.

## Execution Date

This is a **UCITS** requirement (although what is regarded as the execution date is not defined in UCITS). Most markets regard the date as specified in the Trade Date element in the MX as both the date of valuation point and the execution date. And certainly in many cases, the valuation point and the execution date are the same.

## Register Update Date

This is a **new** requirement. Currently both CEDE and ECLR have the need to quote this date in the confirmation. This is the date upon which the fund register was updated. Currently CEDE and ECLR place this date in the trade date. (The register update date is used by CEDE to know from when CEDE is to calculate corporate actions and trailer commissions.) SMPG market practice has agreed that ‘order receipt date’ is to be part of the global market practice.

**ACTION**

[1] SMPG market practice will specify this date using an extension in the confirmation messages

[2] Change request to be submitted.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Dealing Cut-off Date | Valuation Point | NAV calculated | NAV applied | Register update date | Settlement date *(date cash received for order and entitlement allowed. Many markets are pre-paid.)* |
|  | This is regarded as a single date (Trade Date element in the confirmation ) and is regarded as be synonymous with ‘execution date’ . | | | Specified in Trade Date element of confirmation. |  |

In reality, all markets use the Trade Date element in the confirmation to specify ‘valuation point’. Some call it trade date, some call it NAV date and some call it execution date. CEDE and ECLR use trade date to carry the ‘register update date’.

# Market Practice Review in MyStandards

The current global market practice (as published on SMPG.info “*SMPG-IFWG-MP-Orders\_Final\_V2.1\_20 September 2011.zip”*) has been transcribed into the MyStandards environment. for the following messages :

* Subscription order
* Redemption order
* Subscription order confirmation
* Redemption order confirmation
* Order instruction status report (in response to subscription and redemption order messages

The group reviewed the content of the subscription order and subscription order confirmation messages. The messages were reviewed in the MyStandards Usage Guideline Editor and changes made immediately. Much fine tuning was carried out, in the first instance to eliminate elements that might not be regarded as relevant to the global market practice and in the second instance, to eliminate superfluous text.

Similar changes were extrapolated to the redemption order and confirmation. The work done in the charges and commission codes sequence was also incorporated **and an ‘editor file’ was sent to all relevant NMPG conveners to use as the basis for their NMPG work.**

There is a concern that elements might have been removed that should be retained. Further review and refinement will be necessary.

### Use of annotations

SMPG has agreed the use of three annotations:

|  |  |
| --- | --- |
| SMPG Usage | This specifies additional market practice usage information. |
| SMPG Semantic Redefinition | This specifies the element is being used with a different definition that that defined in ISO 20022.  *This means the field is being ‘mis-used’!* |
| SMPG Definition Refinement | This specifies additional definition information.  Sometimes definitions are somewhat generic and a more specific definition is useful . |

## Transcribing NMPG MP into MyStandards

Since NMPG will be quite similar to SMPG, the quickest way to transcribe a local market practice is to use the existing SMPG ‘editor’ file as the starting point for this work. SMPG editor files will be made available. **(this was already distributed before these minutes were circulated).**