Schweizerische Kommission für Standardisierungen im Finanzbereich (SKSF)
Commission suisse de normalisation financière (CSNF)
Swiss Commission for Financial Standardisation (SCFS)

A Committee of the Swiss Bankers Association

SCFS Investment Funds Operations Guide

Distribution and Settlement of Swiss and Foreign Investment Fund Units in Switzerland

SCFS Subcommittee Funds

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Overview

1 Introduction

The objective of this document is to describe the distribution and settlement of Swiss and foreign investment fund units in Switzerland. An important section explains the roles of the different market participants.

This paper shall serve as a reference for the work of SCFS in national and international funds committees for standardization and harmonization. Moreover, it shall be considered to be a basis for Swiss market practices in the investment fund business in Switzerland. The definition of such market practices is an important task of the SCFS Subcommittee Funds.

The document is intended for:

- Institutional investors
- Distributors of investment fund units, e.g. to investors
- Custodians and Transfer agents
- Fund hubs
- Fund management companies and Asset managers

The document was prepared by the following members of the SCFS Subcommittee Funds:

- AIG Private Bank Ltd.
- Credit Suisse
- Lombard Odier Darier Hentsch
- Pictet & Cie
- Swiss Funds Association SFA
- Swiss Investment Company
- SIS SegaInterSettle AG
- SWIFT
- Swiss Life Funds Business AG
- Telekurs Financial Information Ltd.
- UBS AG
- Zürcher Kantonalbank

The main goal of this collaboration is to increase efficiency in the process of distribution and settlement in the investment fund business.

The following sections describe the processes in the Swiss market.

2 Market participants - their roles and relationships

2.1 Roles

In the Swiss market, several market participants with the following roles are involved in the investment fund business:

a) *Fund company* (fund manager) / foreign fund provider that launches the funds and selects the underlying securities
b) *Custodian* responsible for monitoring, safekeeping and – in this context most importantly – issuing and redeeming investment fund units
c) *Distributor*, i.e. the distribution channel through which investment fund units are provided
d) *Fund hub* as intermediate service provider for investment fund units trading
e) *Universal bank* for centralizing securities transactions (including investment funds business)
f) *Central Securities Depository* (CSD) as service provider for the settlement of securities and investment fund units (including placing foreign fund units)

2.2 Actors/Agents

The above roles, among others, are allocated to the designations commonly used at the international level for the actors/agents involved in the distribution/settlement process:

Actors/Agents	Description	Actor within Swiss Market
Regulator	The regulator lays down the legal basis binding for the market participants.	EBK (Swiss Federal Banking Commission)
	Defines the code of conduct and the conventions within the framework of self-regulation.	Swiss Funds Association SFA SBVg (Swiss Bankers Association)
Investor	The party whose money is invested and who benefits from the performance of the investment. It can either be an individual or an institutional investor.	Final customer
Fund company	The company that launches the fund, determines the investment strategy, appoints the service providers, and makes all major decisions for the fund. It is responsible for the distribution and marketing of the fund.	Fund manager / foreign fund provider
Asset manager	The Asset manager is in charge of financial assets and manages them based on the fund's investment policy guidelines laid down in the prospectus.	In the responsibility of the fund manager, usually delegated to the sponsor of the fund.
Fund accountant	The Fund accountant records the fund's assets and liabilities and calculates the fund's net asset value (NAV) as well as the subscription and redemption price.	Fund manager
Representative	Legal representative of the fund to investors and regulators, hence it is mainly responsible for the mandatory publication and other information of the fund. If the representative is a bank, it also takes on the role of the paying agent (see below).	For Swiss investment funds, the fund manager is the fiduciary owner of the fund's assets. From an operational point of view, however, the custodian bank plays the core role as it takes care of all subscriptions as well as payment transactions. Further subscription and paying agents may be mentioned in the prospectus.

Actors/Agents	Description	Actor within Swiss Market
Paying agent	The Paying agent can accept money, pay proceeds from investment fund units' redemptions and disburse dividends.	According to the Investment Fund Act ("AFG") Art.45, § 3, foreign fund providers need to appoint a representative and a paying agent in order to do business in Switzerland.
Custodian	The Custodian is responsible for the safe-keeping of the fund's assets	Custodian bank
Transfer agent	The Transfer agent updates the fund accounts to reflect the daily unit sales and redemptions, switches, transfers and changes of registrations. It ensures prompt settlement of orders and is able to provide tax information to the investor and its intermediaries. It can calculate, receive and set off commissions. It prepares and sends out order confirmations and the resulting cash account statements to the investor or its intermediary. It responds to requests concerning securities account holdings and has a control function. It executes payments.	Custodian bank
Registrar	It is appointed by the fund company and keeps the investor registers. It keeps the records of investor securities accounts. These records represent the fund's liabilities. It prepares the account statements (securities holdings and cash) for the investor and/or its intermediary and makes them available on a periodic or ad hoc basis. It can provide tax information to the investor or its intermediary. It can be appointed "corporate secretary" for exercising voting rights. It reports to the regulator and the unit holder and can appoint a sub-registrar.	Not valid in Switzerland.
Intermediary	The Intermediary is an agent between two transacting parties but usually acts in its own name. It centralizes certain activities and thus generates economies of scale.	Distributor; Fund hub
Hub	It manages and centralizes communication, settlement and coordination among the various parties.	Fund hub
(I)CSD	Central Securities Depository (CSD) – An organisation holding securities either in certificated or uncertificated (dematerialized) form, to enable book entry transfer of securities; it further deals with transaction processing such as clearing and settlement of securities in electronic form. International Central Securities Depository (ICSD) - A CSD that offers additional services in cross-border securities settlement.	Central Securities Depository (SIS SegaInterSettle in Switzerland)
Cash correspondent	A financial institution that makes or receives payments on behalf of a fund.	Correspondent bank, Custodian bank

2.3   Market participants and their relationships

The following chart illustrates the market participants and the relationships between them. The various business relationships are represented by different colours. The agents are marked in blue italics.
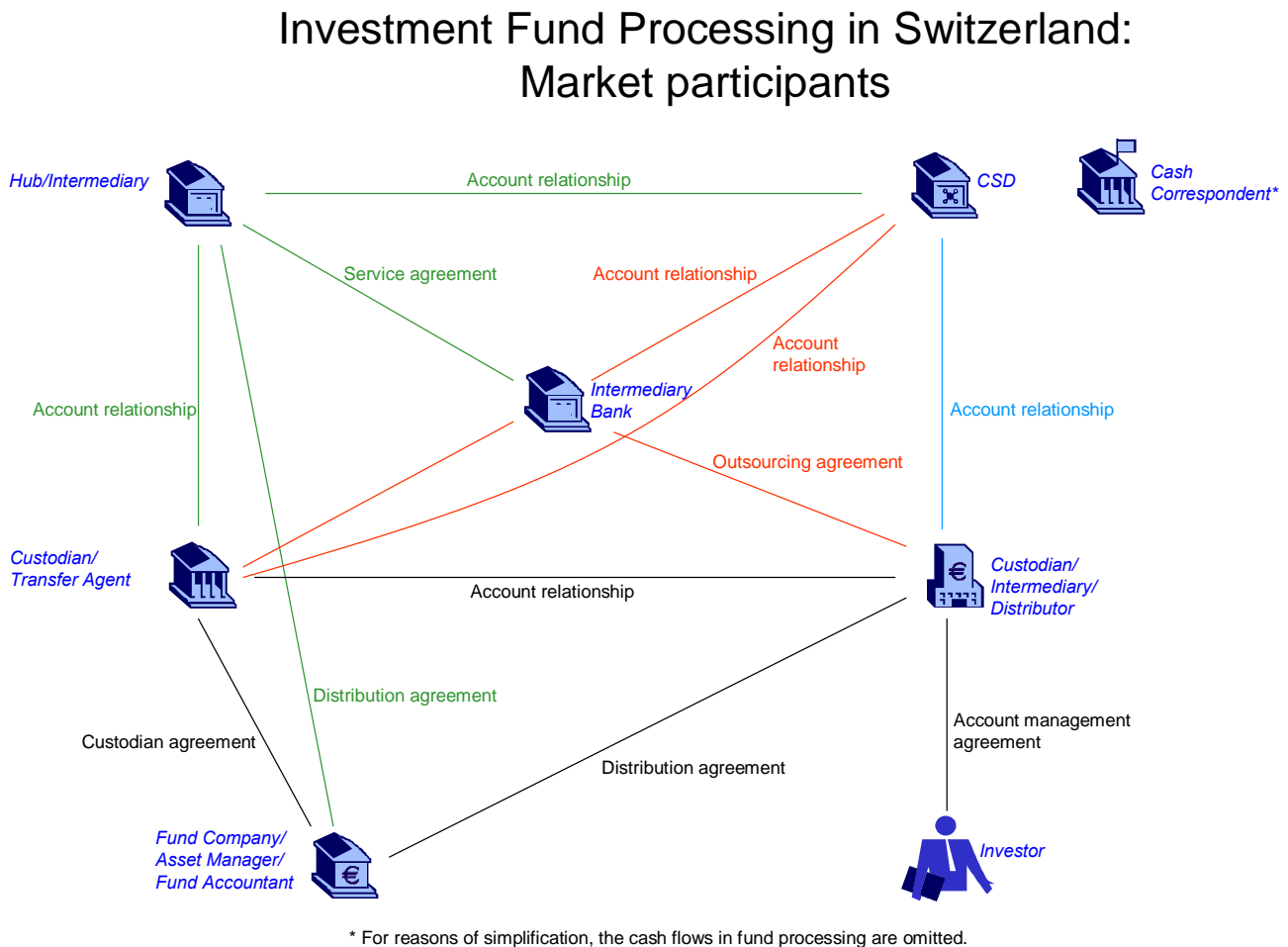

Figure 1: Investment Fund Processing in Switzerland: Market participants

The ideal processes of trading in Swiss or foreign investment fund units must ensure clear scopes of responsibility and should allow for straight-through processing.

3 Characteristics of fund settlement in Switzerland

3.1 Primary market transactions

- The subscription and redemption of investment fund units are normally handled by the custodian bank.

- Orders are transmitted electronically by SWIFT and FIX based messaging solutions (see Appendix) or they are often sent by fax or handled over the phone.

- In Switzerland, there is no specific fund order platform. It is, however, possible to settle investment funds over the established platforms Vestima+ and FundSettle.

- SIS SegaInterSettle today also offers services in the cross-border order routing area.

3.2 Secondary market transactions

- Exchange Traded Funds (ETFs) are traded like shares over the "Swiss Value Chain", a cooperation of SWX Swiss Exchange, SIS SegaInterSettle and SIC Swiss Interbank Clearing.
- Some investment funds (e.g. real estate funds) can be traded on the secondary market.

3.3 Settlement & Custody

- Funds authorized for distribution in Switzerland can usually be handled via SIS, institutional funds being one exception to this rule.

- The custodian bank (in agreement with the fund company) is responsible for delivering investment fund units to SIS.

- Settlement can be processed without or against payment in all SIS-eligible currencies.

- The SIS custody services for funds are the same as those for shares and bonds.

- In addition to the SIS standard services and based on the power-of-attorney of the position-keeping SIS participant, SIS offers asset reporting (allowing the calculation of the trailer fee) to custodian banks/fund companies.

4 Distribution of investment fund units

The following processes give an overview of various possibilities of trading in investment fund units (subscription, redemption):

- Subscription/redemption of fund units via Custodian/Transfer agent
- Subscription/redemption (of CH and LI fund) units with settlement via Central Securities Depository (SIS)
- Subscription/redemption of fund units with foreign domicile (ex CH and LI) via new settlement model of SIS
- Subscription/redemption of fund units via FundSettle
- Subscription/redemption of fund units against payment via Vestima+

Subscription/redemption of fund units via Custodian/Transfer Agent

Fund Company/
Asset Manager/
Fund Accountant

a. Statement of transactions

b. Confirmation
(Price Info)

1. Order
2. Status active
3. Confirmation/Settlement

1. Order
2. Status advice
3. Confirmation/Settlement

Custodian/
Transfer Agent

Custodian/
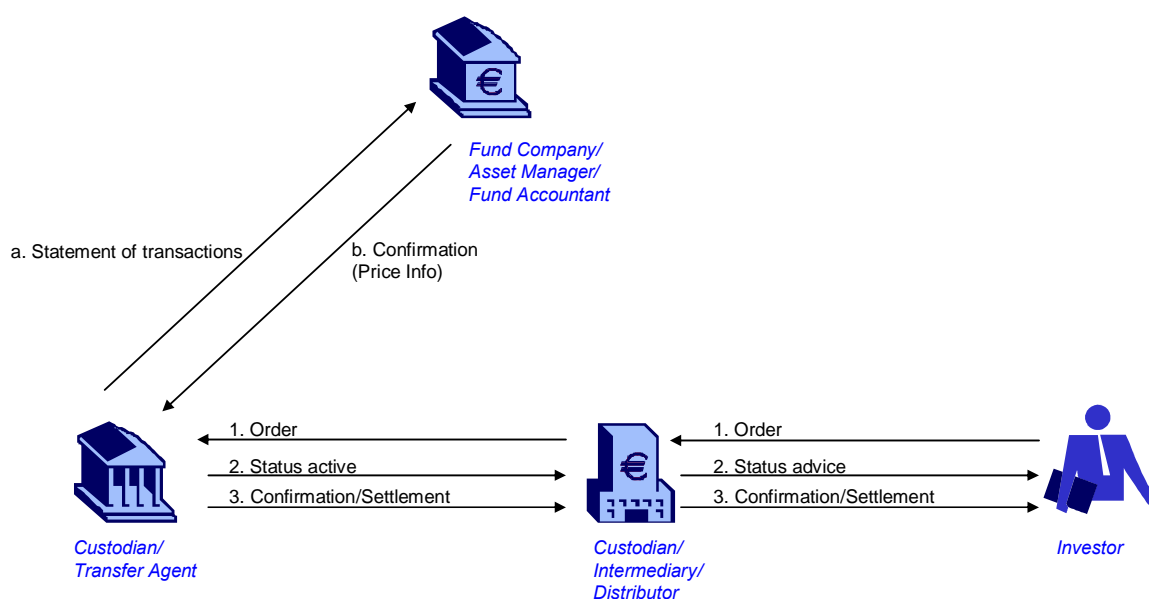Intermediary/
Distributor

Investor

Figure 2: Subscription/redemption of fund units via Custodian/Transfer Agent

Subscription/redemption (of CH and LI fund units) with settlement via Central Securities Depository (SIS)
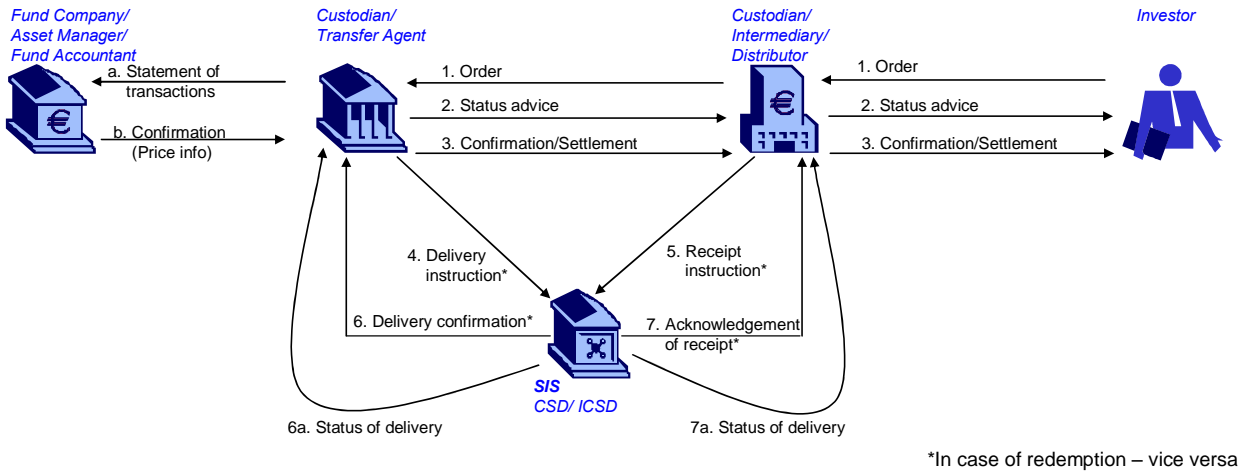

Figure 3: Subscription/redemption of (CH and LI fund units) with settlement via Central Securities Depository (SIS)

Subscription/redemption of fund units with foreign domicile (ex CH and LI) via new settlement model of SIS

	1. Order		1. Order		1. Order		1. Order	
	2. Status advice		2. Status advice		2. Status advice		2. Status advice	
	3. Confirmation/ Settlement		3. Confirmation/ Settlement		3. Confirmation/ Settlement		3. Confirmation/ Settlement	
Fund Company/ Asset Manager/ Fund Accountant		*Custodian/ Transfer Agent/*	Fund data, e.g. FPP*	*SIS CSD/ICSD*		*SIS-participant*		*Investor*
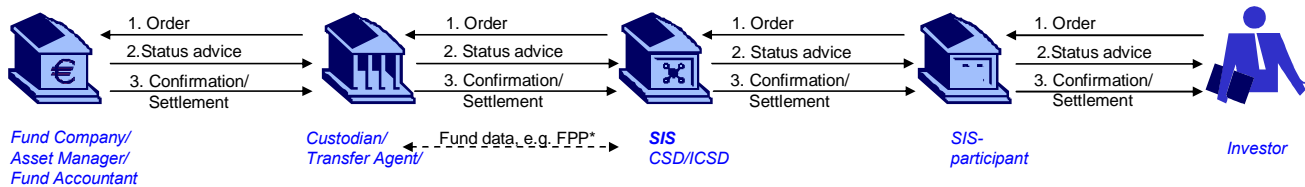
*FPP: Fund Processing Passport (www.efama.org)

Figure 4: Subscription/redemption of fund units with foreign domicile (ex CH and LI) via new settlement model of SIS

Subscription/redemption of fund units via FundSettle

Fund Company/
Asset Manager/
Fund Accountant

a. Statement
of transactions

b. Confirmation
(Price info)

Custodian/
Transfer Agent

Custodian/
Intermediary/
Distributor

Investor

1. Order
2. Status advice
3. Confirmation/
Settlement

FundSettle

1. Order
2. Status advice
3. Confirmation/
Settlement

1. Order
2. Status advice
3. Confirmation/
Settlement

4. Delivery
instruction*

5. Receipt
instruction*

6. Delivery
confirmation*

7. Acknowledgement
of receipt*

CSD/ ICSD

6a. Status of delivery

7a. Status of delivery

* In case of redemption – vice versa

(Depending on the fund's domicile, additional communication
with the CSD may be necessary; e.g. for funds that are
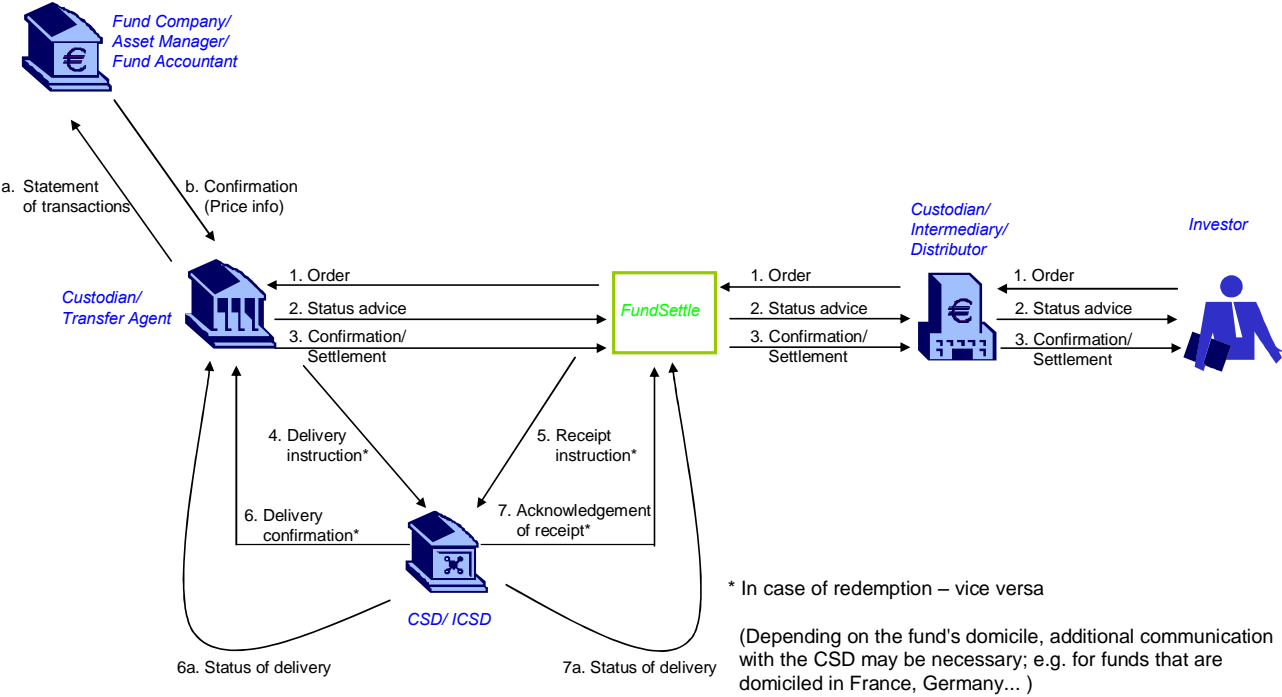domiciled in France, Germany...)

Figure 5: Subscription/redemption of fund units via FundSettle

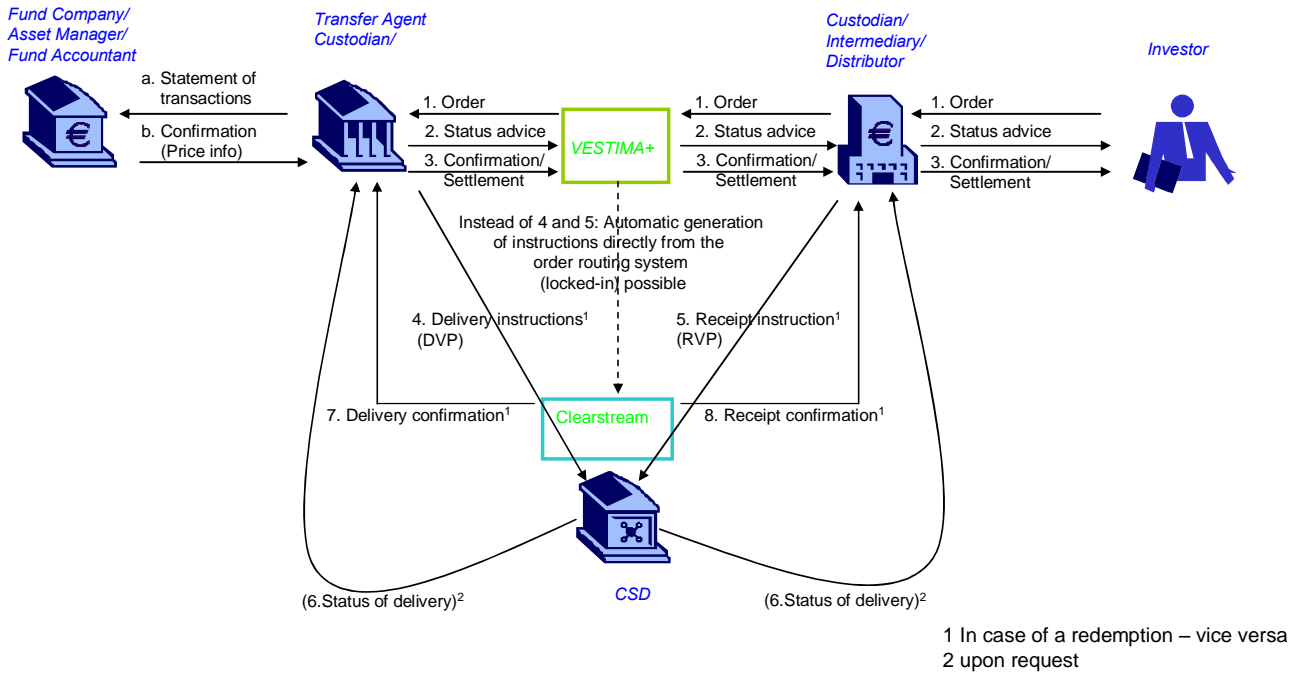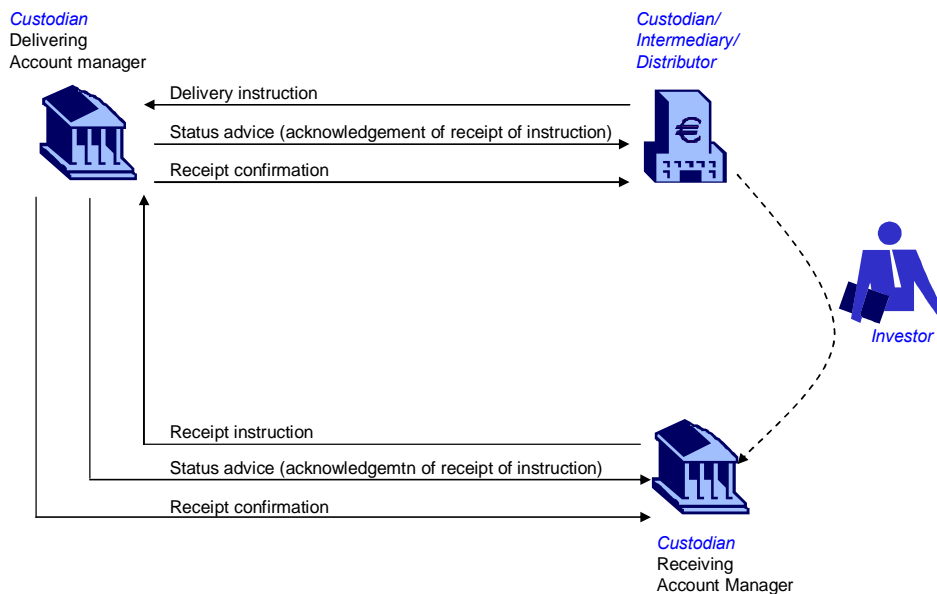# Subscription/redemption of fund units against payment via Vestima+

Figure 6: Subscription/redemption of fund units against payment via Vestima+

5 Transfer of investment fund units

Transfer of fund units between various custodians

This is only an example. Several (cascading) changes of custodian may become necessary as an investor changes to another custodian. A CSD can act both as delivering and receiving account manager.

Figure 7: Transfer of fund units between various custodians

6 Reconciliation of portfolio transactions and holdings

For the reconciliation of deposit accounts, the same message types used for shares and bonds can generally be utilized for reporting the status and the transactions of portfolios. In this context, SWIFT provides the message types described under point 9.2.8. In contrast to the trading of shares and bonds, transfer agents (custodians), play a key role in the trading of funds. They often do not offer SWIFT based means of communication, but use fax, emails, file transfers, etc. Thus, in funds trading, the reconciliation of portfolio transactions and holdings does not reach the same level of automation that can be found in the shares and bond sector.

Another characteristic of the funds industry is the payment of portfolio commissions, so called *Retros* (retrocessions) or *Trailer Fees*; these are paid by the fund companies to the distributors. For calculating trailer fees, the account holdings and transactions must be reconciled correctly. Additional processes are necessary for settlement.

7 Closing words

Thank you for your interest in our SCFS Investment Funds Operations Guide.

Special thanks go to the members of the SCFS Subcommittee Funds for their active support and great deal of effort in preparing this SCFS Investment Funds Operations Guide and, of course to the employers for providing the qualified experts.

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9 Appendix – Electronic messaging in fund settlement

9.1 Background

9.1.1 ISO certified message types for fund trading

In early 2000, SWIFT was requested by several companies active in the investment fund business to find a solution for standardizing communication primarily in the distribution of funds (subscription and redemption of investment fund units).

In the same year, so called *Fund Templates* were developed for the currently existing **ISO 15022[1] based trading message types (MT502, 509, 515)** in order to support the information flow regarding the subscription and redemption of investment fund units. For this purpose, additional fund specific qualifiers and codes were officially introduced in the SWIFT-Standard Release 2001.

For fund settlement, the following **ISO15022 message types**, in production since 2001, are used:

- **Settlement MT540 – 548** for the settlement of **transfers,**
- **Statements MT535 – 537** for **reconciling holdings, transactions and pending transactions** and
- **Corporate Actions MT564 – 568** for **announcing and confirming cash forecasts.**

The ISO15022 based message types are restricted to certain core functionalities for settlement. For this reason they do not support further fund specific processes such as opening accounts or supporting bulk orders. Therefore, SWIFT decided together with interested market participants to include the fund processes in the further elaborated ISO 20022[2] standard, to comprehensively model fund processes and to underlay them with a new, extended set of message types.

The result is a **Process-Model for the settlement of funds** that was incorporated in the **ISO 20022 Standard-Repository**. The ISO certified process today forms the basis of a detailed set of new **XML based UNIFI Funds message types.** Since April 2004, the XML based UNIFI Funds message types can be used in the financial industry under the name of **SWIFTNet Funds Solution**. SWIFT continues to work on the SWIFTNet Fund Solution and to add further ISO certified message types.

9.1.2 FIX message types for funds trading

Apart from the above mentioned ISO based message types, **FIX[3] message types,** which are based on a separate syntax, are used for placing the subscription and redemption orders in investment fund units.

Those FIX message types are only used in Switzerland between some banks and their clients (investors and third-parties). For communication with Fund hubs and Transfer agents in Europe, FIX message types are not used.

Based on the international standardization activities in the funds business, ISO messages types (ISO15022 messages and the new ISO20022 as a long term future minded solution) are used.

These message types should preferably be used in Switzerland for the automation of cross border funds business with Fund hubs and Transfer agents.

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[1] ISO 15022:1999 Securities – Scheme for messages (Data Field Dictionary) – Parts 1 + 2
[2] ISO 20022:2004 Financial Services – UNIversal Financial Industry message scheme – Parts 1 - 5
[3] Financial Information eXchange Protocol

The primary goal of these message types was originally to automate and facilitate the **order placement of investors and banks in shares and bonds trading;** they were developed in the Anglo-Saxon countries in the second half of the 90s. In the meantime, the scope of FIX has increased considerably. Today, it is possible to trade with FIX other financial instruments than shares and bonds – this includes **the subscription and redemption of investment fund units**.

There are different versions of FIX message types in use at the same time in the market.

In 2005, FIX decided to register under the **ISO 20022 Standard Repository** the processes and data elements comprising the FIX message types. This registration does not affect the existing versions of FIX message types in the market.

9.1.3   The ISO process model for the settlement of funds

The ISO certified process model for fund settlement is an integral part of all financial processes described in the **ISO 20022 Standard Repository**. This repository is extremely relevant for ISO's standardization processes; it integrates different process areas and thus has become increasingly important for the entire financial industry.

The ISO-Standard-Repository consists of the following elements:

- The **ISO Data Dictionary** describes all information elements relevant for the messaging process.

- The **ISO Business Process Catalogue** includes the modelled fund business procedures.

- The catalogue also provides information on the **actors** involved in the relevant processes as well as details on the **information flows** relevant for the messaging process.

- Such **generalized processes** form the basis for the ISO-certification of message types.

- In the fund business, the information flows embrace different processes such as account opening, orders for the subscription and redemption of investment fund units, transfers of investment fund units, status reports, order confirmations, price reports and cash forecast reports.

9.2 Message syntax and types in fund trading

9.2.1 Account Opening

UNIFI-Messages (ISO 20022)
Account Opening Instruction
Account Opening Confirmation
Account Modification Instruction
Account Modification Confirmation

9.2.2 Orders (Subscription / Redemptions / Switches)

FIN Messages (ISO 15022)		UNIFI-Messages (ISO 20022)	FIX Messages
MT 502	Order to Buy *(Subscription)* or Sell *(Redemption)*	Subscription Bulk Order	Trade Order *(for subscription and redemption)*
MT 502	Order to Buy or Sell - Cancellation Request	Subscription Bulk Order Cancellation Instruction	Trade Order cancellation *(for subscription and redemption)*
		Subscription Multiple Order	
		Subscription Multiple Order Cancellation Instruction	
		Redemption Bulk Order	
		Redemption Bulk Order Cancellation Instruction	
		Redemption Multiple Order	
		Redemption Multiple Order Cancellation Instruction	
		Switch Order	
		Switch Order Cancellation Instruction	

9.2.3 Status Reports (Subscription / Redemptions / Switches)

FIN Messages (ISO 15022)		UNIFI-Messages (ISO 20022)	FIX Messages
MT509	Trade Status Message – Order Status Receiver *(for subscription and redemption)*	Order Status Report	Trade Status Message – Order Status Receiver *(for subscription and redemption)*
MT509	Trade Status Message - Cancellation Request	Order Cancellation Status Report	Trade Status Message - Cancellation Request *(for subscription and redemption)*
		Request for Order Status Report	

9.2.4 Order Confirmations (Subscription / Redemptions / Switches)

FIN Messages (ISO 15022)		UNIFI-Messages (ISO 20022)	FIX Messages
MT 515	Client Confirmation of Purchase *(Subscription)* or Sale *(Redemption)*	Subscription Bulk Order Confirmation	Client Trade Confirmation *(for subscription and redemption)*
		Subscription Multiple Order Confirmation	
		Redemption Bulk Order Confirmation	
		Redemption Multiple Order Confirmation	
		Switch Order Confirmation	

9.2.5 Transfer Instructions

FIN Messages (ISO 15022)		UNIFI-Messages (ISO 20022)
MT540 – MT543	Settlement Instruction	Transfer IN Instruction
MT540 – MT543	Settlement Instruction Cancellation	Transfer IN Cancellation Instruction
		Transfer OUT Instruction
		Transfer OUT Cancellation Instruction

9.2.6 Transfer Status Reports

FIN Messages (ISO 15022)		UNIFI-Messages (ISO 20022)
MT548	Settlement Status & Processing Advice	Transfer Instruction Status Report
MT548	Settlement Status & Processing Advice – Cancellation Request Status	Transfer Cancellation Status Report
		Request for Transfer Status Report

9.2.7 Transfer Confirmations

FIN Messages (ISO 15022)		UNIFI-Messages (ISO 20022)
MT544 – MT547	Settlement Confirmation	Transfer IN Confirmation
		Transfer OUT Confirmation
		Reversal of Transfer IN Confirmation
		Reversal of Transfer OUT Confirmation

9.2.8 Statements

FIN Messages (ISO 15022)		UNIFI-Messages (ISO 20022)
MT535	Statement of Holdings	Custody Statement of Holding
MT536	Statements of Transactions	Custody Statements of Holdings Cancellation
MT537	Statements of Pending Transactions	Accounting Statement of Holdings
		Accounting Statement of Holdings Cancellation
		Statement of Investment Fund Transactions
		Statement of Investment Fund Transactions Cancellation

9.2.9 Price Reports

UNIFI-Messages (ISO 20022)
Price Report
Price Report Cancellation
Price Report Correction

9.2.10 Funds Cash Forecast Reports

FIN Messages (ISO 15022)		UNIFI-Messages (ISO 20022)
MT564	Corporate Action Notification	Fund Estimated Cash Forecast Report
MT566	Corporate Action Confirmation	Fund Confirmed Cash Forecast Report
MT568	Corporate Action Narrative	Fund Confirmed Cash Forecast Report Cancellation
		Fund Detailed Estimated Cash Forecast Report
		Fund Detailed Confirmed Cash Forecast Report
		Fund Detailed Confirmed Cash Forecast Report Cancellation