

Fund Trading and Settlement project

Progress update

FTS Programme team

7 December 2017

Agenda

02:30 – 02:35	Welcome and Introductions	<i>Phil Hine</i>
02:35 – 02:45	Overview	<i>Phil Hine</i>
02:45 – 03:05	Fund settlement	<i>Phil Jones</i>
03:05 – 03:25	Order Routing	<i>Phil Hine</i>
03:25 – 03:35	Fund standing data	<i>Martyn Bailey</i> Presented by: - <i>Charles McCreedy</i>
03:35 – 03:45	SLAs	<i>Vin Davey</i>
03:45 – 04:00	Industry body	<i>John Salmon</i>
04:00 – 04:30	Q&A	<i>Phil Hine</i>

Objectives of this session

1

Reminder of challenges we are seeking to address

2

Provide a summary of workstreams

3

Determining industry needs and finding solutions

4

Key findings from research undertaken

5

Share decisions made

6

Working with suppliers and shaping solutions

7

Outline next steps

Overview

Why did we start FTS?

Drive efficiency in the distribution of mutual funds within the UK

- ▶ High levels of complexity in fund distribution
- ▶ Lack of agreed standards
- ▶ Adoption of solutions is slow and challenging
- ▶ Desire to reduce cost, complexity and risk

Call to action



- Our industry is evolving and opportunities are being identified to bring about greater efficiency
- The FCA is looking to industry to enhance the consumer experience
- FTS provides a structure to get involved, help shape the solution and drive industry change

Project members

26 firms working on the FTS project



Way forward

Our implementation approach

- ▶ Our work in 2017 has been focused on analysis and design
- ▶ We are moving into implementation
- ▶ We now want to work with suppliers to develop practical solutions which work for both the industry and suppliers

Way forward

Project constitution

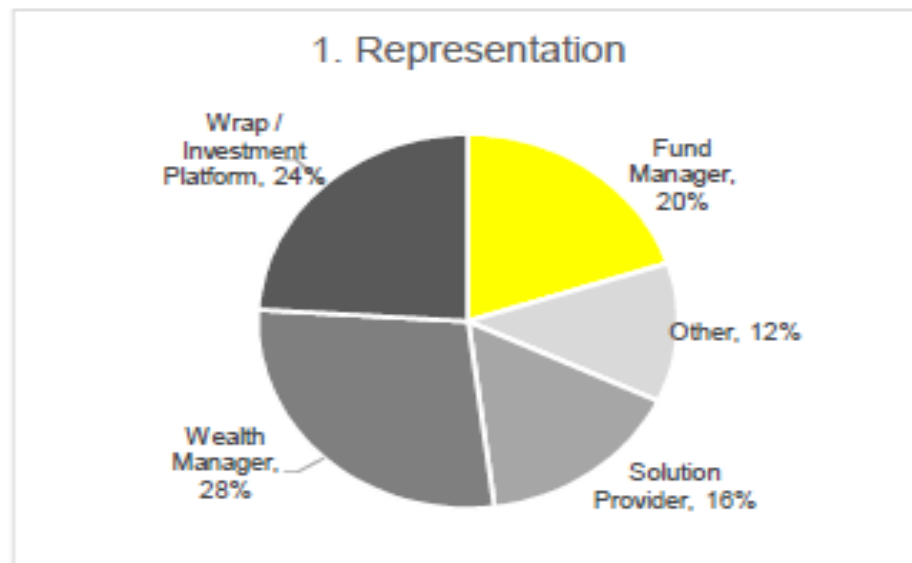
- ▶ We are inviting suppliers to join the project and become full members
- ▶ All members have a seat on the Steering Committee and can contribute to each of the working groups if they wish

Summary of workstreams

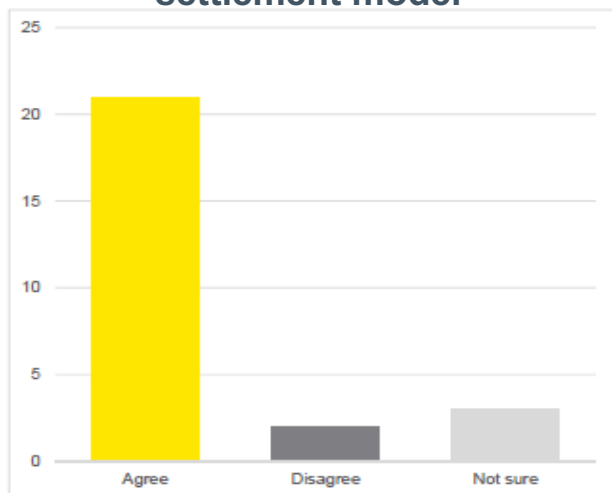
Fund Settlement

Survey – Key Findings

- Initial survey was carried out in Q2 2017 with the support of EY
- Survey was issued to members of the ABI, IA, PIMFA, TA Forum, TISA and UKPG
- Received 26 responses from a broad cross section of industry

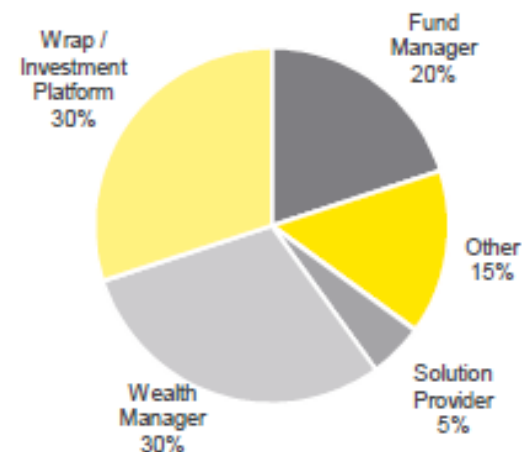


Support move to centralised settlement model



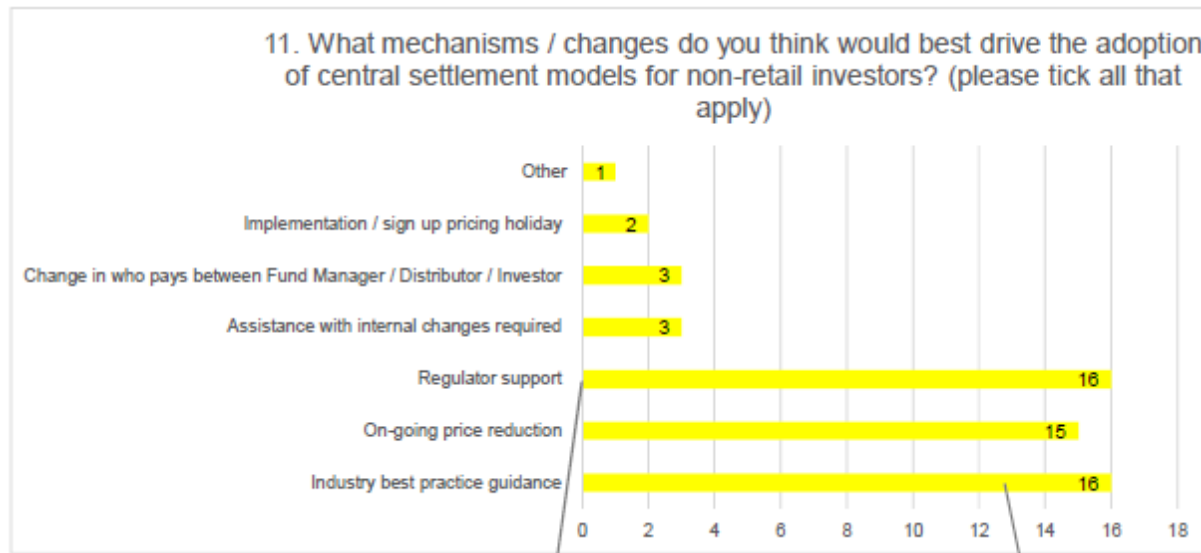
- There was robust support for moving to centralised settlement models across the industry

The composition of respondents who agreed:



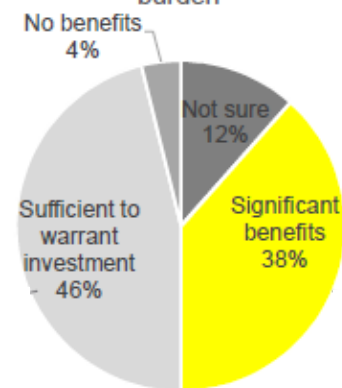
Survey – Key Findings

- Regulation, best practice and cost reductions were deemed as the most attractive factors to encourage adoption of centralised settlement models



- 38% expected significant benefits to come from moving to centralised settlement models and a further 46% saw this as warranting investment

13. Potential to deliver industry efficiency, reduce risk and costs and simplify the reconciliation burden



Summary

- Industry supportive of the centralised settlement models offered by the current suite of suppliers
- Key findings from survey underpins our approach
- Our analysis of current market indicates only c10% of total settlement volumes pass through centralised settlement models
- We are therefore seeking higher levels of take up for centralised settlement models
- Currently gathering data on why member firms have been slow to adopt the centralised settlement models and what barriers would need to be overcome

Summary

- Distributors and product providers seek higher levels of adoption before they also adopt centralised settlement models
- The group recognises that the models are different and evidence that the current centralised settlement model propositions are not fully understood by industry and greater information may help increase understanding of benefits
- Engaging with suppliers to enhance market data on options enhance our understanding of the various models and their functionality

Summary

- Detailed analysis of volumes provided by Transfer Agents, Distributors and Fund Managers has identified key industry players that bring critical mass to the adoption of centralised settlement models
- Mapping the current settlement models and the possible future state model with interoperability

Decisions Made

- Seek to adopt available settlement options rather than create a new utility
- FTS role is to help facilitate more rapid adoption of market solutions
- Engage with key distributors and fund managers that drive the bulk of settlement volume to understand the barriers to adoption

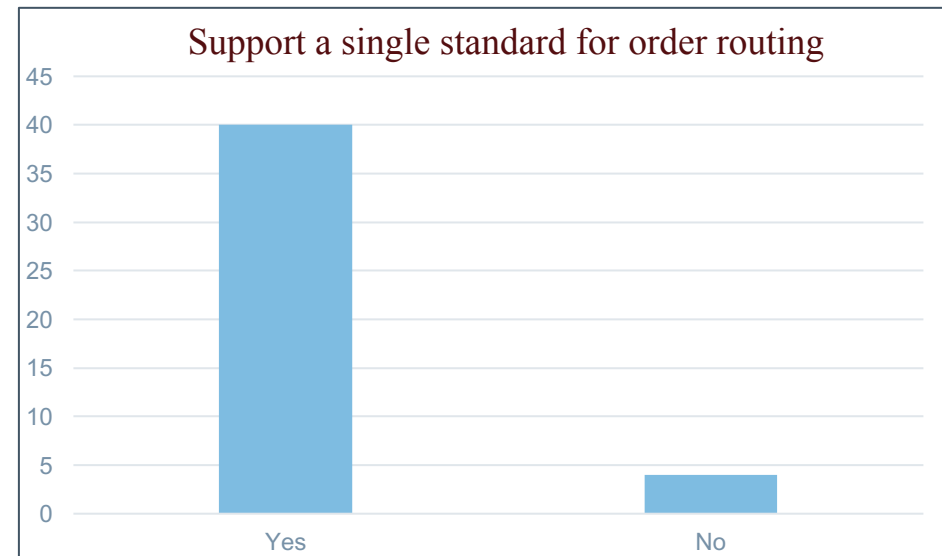
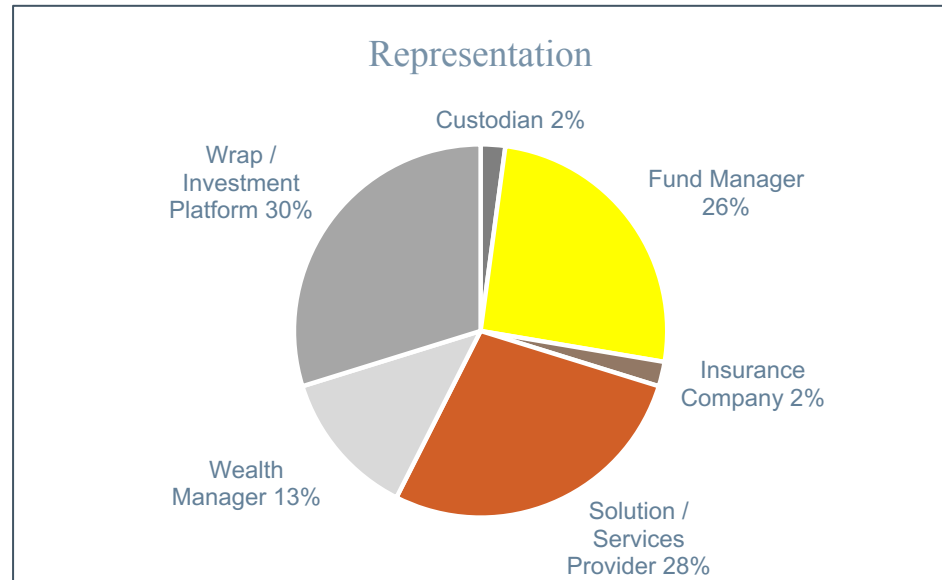
Next Steps

- Engage with key centralised settlement model providers to join the project and to participate in providing market knowledge in Q1
- Complete validation of functionality, operating models and benefits of moving to the centralised settlement models in Q1
- Engage with key distributors and fund managers identified from our analysis to explore barriers to adoption and how these might be mitigated in Q1

Order Routing

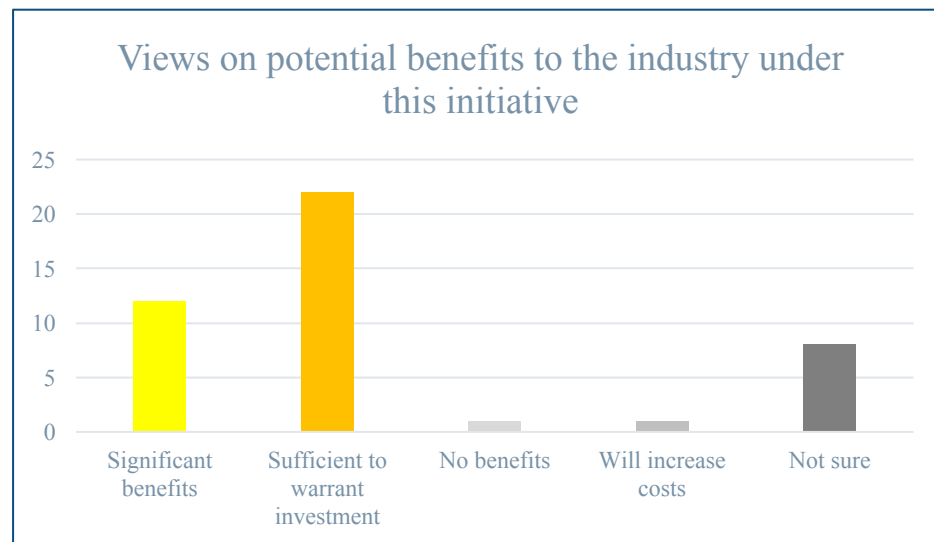
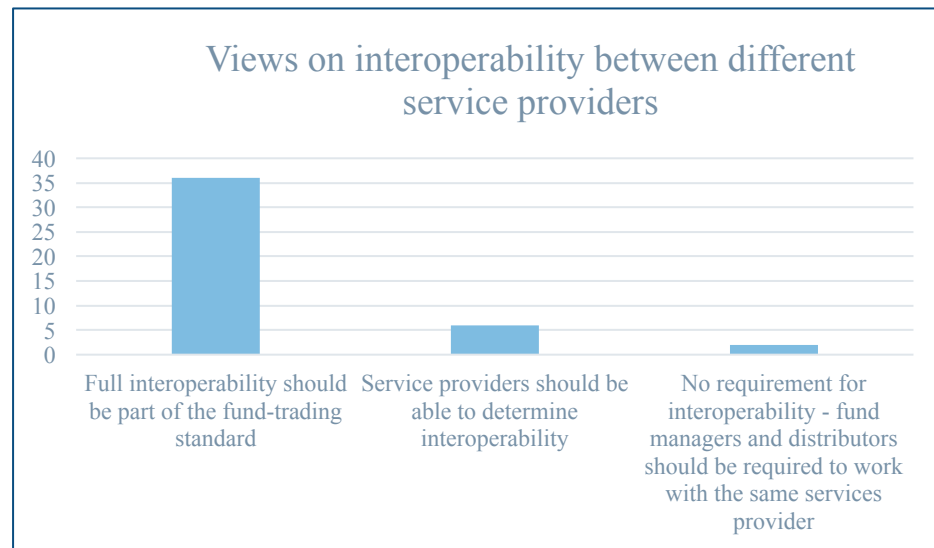
Survey One – Key Findings

- Initial survey was carried out in Q1 2017 with the support of EY
- Survey was issued to members of the ABI, IA, PIMFA, TA Forum, TISA and UKPG
- Received 47 responses from a broad cross section of industry
- Significant support for adopting a single standard for order routing
- Majority of respondents supported moving to ISO as a single standard to be adopted by the industry
- Why ISO 20022? The majority of the market trades currently use ISO 20022 today



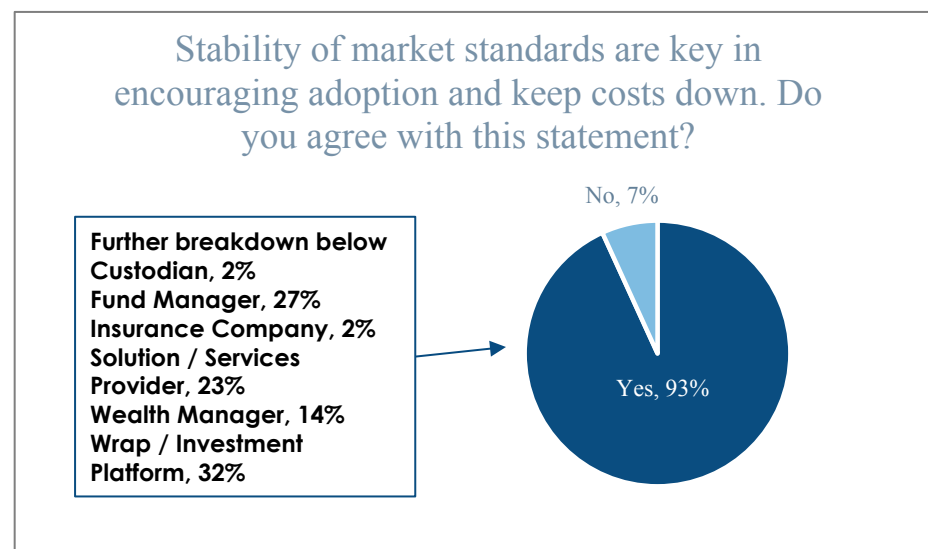
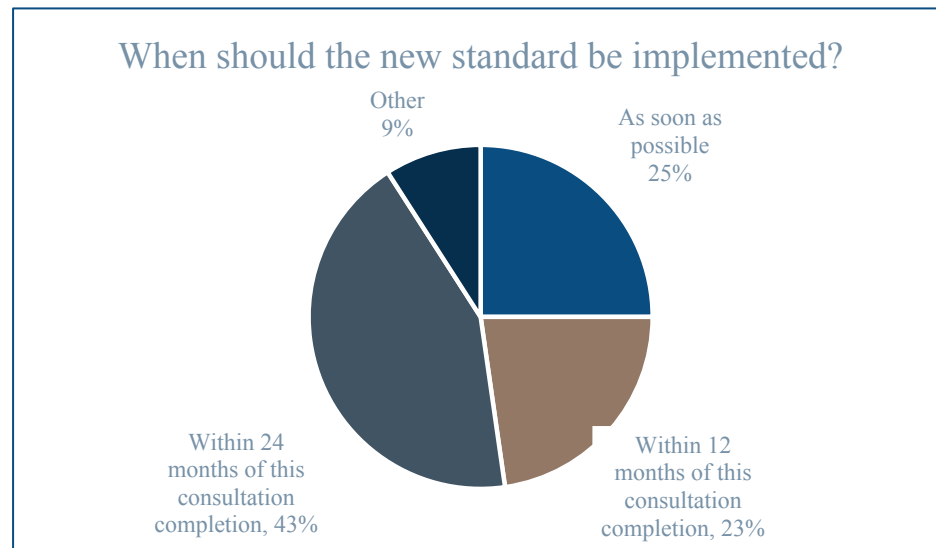
Survey One – Key Findings

- Increasing interoperability through the adoption of a comprehensive Order Routing standard for ISO 20022 will bring benefits to distributors and fund managers
- The leading suppliers can already support ISO 20022 and likely new entrants are familiar with ISO 20022
- The vast majority of respondents in the survey agreed that moving to a single standard would bring benefit and warranted the investment



Survey One – Key Findings

- The functionality offered by suppliers differs, supporting different market needs and continues to offer competitive differentiation
- The project recognises that current models exist today and seeks to leverage these in moving to the desired outcome of greater interoperability
- The market is keen to implement these changes ideally within 1 year and no more than 2 years
- The market also wants stability of new market standards to encourage adoption and keep costs down to realise the benefits of any investments



Survey Two – Key Findings

- Second survey undertaken in Q3 2017 to gain greater detail on usage of current solutions
- 37 respondents from across industry
- Majority of order routing messages currently use ISO 20022
- All the leading suppliers can support ISO (albeit this may involve translation from another standard)
- Adoption would depend on costs and demand
- Growing interest in direct SWIFT connectivity and this is already in place with some large volume players
- Suppliers should ensure their own robust Disaster Recovery procedures

Decisions made

- Adopt a single standard for order routing based on ISO20022. This standard needs definition and on going governance to ensure its effectiveness
- Require interoperability in solutions, enabled by the single standard
- Building on current standards, the project has developed an enhanced ISO 20002 message set accommodating a wider set of data fields being used
- UKFMPG as custodian of ISO standards have agreed to review and develop into an industry agreed ISO 20022 standard.

Decisions made

- FTS project members will support the UKFMPG in developing that standard
- Work with suppliers to improve robustness of solutions (business continuity, disaster recovery)
- Work with suppliers to clarify and agree liability for non delivery of messages.

Next Steps

- Hand over draft ISO 20022 standards to UKFMPG – December 2017
- Work with and support the UKFMPG to agree the proposed ISO 20022 standard - Q1 onwards
- Define governance needed for standards and explore who might provide that governance going forward – Q1
- Consider impact of interoperable order routing on pricing models – Q1

Fund Standing Data

Summary

- Initial focus is now on fund standing data rather than fund prices
- Standards are being developed for fund standing data as nothing exists today and will cover all standing data needed by TAs, FAs, platforms, FMs and Life Companies
- The working group's draft of required standing data is now being reviewed by all the FTS members
- Project is considering the creation of standards - there is no current standard within ISO and it could take considerable time to develop within the ISO regime

Summary

- Developed a list of suppliers that act as intermediaries for fund standing data plus usage by the working group members as a proxy for wider industry
- Starting to review benefits case for anticipated increases in operational efficiency
- Assessing options for formalising standards, adoption, governance and ongoing maintenance

Next Steps

- Validate the proposed standards with the FTS project members – Q1
- Develop proxy benefits cases for industry users in adopting standards in Q1
- Assess options for standards and how these can be created with the participation of the wider industry in Q1
- Explore options to work alongside bodies that can help with the creation of standards, governance, adoption and ongoing maintenance – Q1
- Seek engagement with the existing suppliers to explore how standards might be adopted and implemented - Q1

Service Level Agreements

Summary

- Seek to enhance the standardisation of SLAs to reduce costs when agreeing distribution agreements
- Help bring industry up to good practice
- Working group being formed to help agree scope and outputs
- Seeking to align SLA work with other relevant workstreams (order routing, settlements and fund standing data)
- Have identified key distributors that have agreed to participate in a review of their service level agreements
- In process of inviting additional firms to participate in review

Summary

- Hogan Lovells will undertake an independent and anonymised review of the distribution agreements to identify:
 - Service levels that are common
 - Service levels that are similar and require limited negotiation to arrive at a standard
 - Service levels that are USPs or quite different and would be hard to reach a consensus view on
- Having undertaken the initial review, the proposed standards will be shared with the wider industry to determine a set of common SLAs

Next Steps

- Form working group in Q1
- Hogan Lovells to undertake initial review of distributor SLAs - Q1
- Plan additional work that may be required to complete the review – Q1
- Review how to engage wider industry and appropriate bodies that can help to formalise the standards and assist with adoption - Q1

Industry Body

Summary

- Industry bodies (PIMFA, IA, TISA) came together, under the auspices of Hogan Lovells, to review the current provision of standards and governance across the investments industry
- A suggestion of creating a new, additional body was dismissed as potentially adding to the cost to the industry as well as creating additional conflict and inconsistencies
- A view was taken that there was an opportunity to cut costs to the industry as well as reduce duplication by recommending that current standards and governance bodies looked at working in conjunction with each other

Summary

- Those views were then considered in conjunction with the work being undertaken at the same time by the Transfers & Re-Registration Industry Group (TRIG) who were also looking at the same issue, and put forward a number of proposals in their Dec 2016 Consultation:
 - » Create common industry standards and good practice guidelines
 - » Introduce an independent governance and oversight body
- Those proposals were deemed to offer the potential to incorporate the needs of FTS and a joint approach would meet the requirement to reduce cost and eliminate duplication

Summary

- In the summer of this year, Origo took the welcome step of creating a subsidiary company, Criterion, to manage their standards work, thus separating the commercial part of their business from the not-for-profit operation
- FTS would ideally like to have one properly constituted and independent standards body and the collaboration between Tex and Criterion is a good first step to achieve this

Next Steps

- Criterion and TeX have made a public statement of committing to collaborate to take forward the recommendations relating to standards, governance and MI made by TRIG
- FTS now have the opportunity to leverage that commitment and extend the collaboration to support and take forward the requirements identified by the FTS working groups and steering group

Questions ?