

Fund Processing Standardization

Annual Report on Industry Progress

Ireland - 2009

Preface

Earlier in 2010 EFAMA and SWIFT confirmed their intention to issue the first Irish cross-border investment fund market standardisation report, as soon as possible and upon reaching sufficient market coverage. Thanks to the cooperation of the larger Ireland-based transfer agents, covering around 80 percent of the Irish investment funds order volumes, this goal has now been achieved.

While the details of the survey are presented in this report, two key facts emerge; namely the high level of automation generally and the high level of proprietary file transfer protocols. First, the total automation rate of orders processed by Irish transfer agents is exceptionally high and rising. During 2009 the rate of automation rose from 83% during the first quarter to 86% in the fourth quarter. This means that out of a total of 5.9 million, mostly high value orders, less than 1 million orders were processed manually in 2009. This reflects the high level of capability in terms of systems and automated processes of a mature Irish TA sector, where the use of electronic solutions mitigates operational risk and lowers costs, increasing the efficiency of the fund processing.

The survey also reveals that the high automation rate includes a high level of use of proprietary file transfer protocols. In other words, the vast majority of fund orders are automated, and of these automated orders many are proprietary electronic messages as opposed to ISO 20022 messages. The drawback of this situation is that proprietary messages are non-standardized and in a many to many environment with thousands of end users this can increase the operational complexity of fund processing. For this reason EFAMA recognized ISO 20022 as the single European standard for fund processing.

Three reasons supported this decision:

- ISO 20022 messages for funds have been built by fund industry experts with SWIFT to fully meet the detailed requirements of investment funds, including hedge funds, globally.
- ISO 20022 is an open market standard that capitalises on ISO 15022, which supports the development of securities messages.
- ISO 20022 use XML, which is the de facto standard towards which a majority of institutions, vendors and computer manufacturers is moving.

In light of the central role played by Ireland in the global distribution of funds, it is very important to recognize the longer-term benefits and efficiencies that are derived from automated and standardised trade messages. The publication twice a year of the automation and standardization rates of fund orders received by transfer agents in Ireland will facilitate the monitoring of progress towards acceptance of the ISO standard. By providing this information, we want to encourage a debate on the benefits of ISO 20022 compared with other standards currently used and we expect that this will foster greater adoption of the ISO standard going forward.

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1. Background

In May 2009, EFAMA published a first report on recent trends in standardization and automation rates of fund orders received by transfer agents (TAs) in Luxemburg. This report was followed by two updates, one for the first half of 2009 and the second one covering the full year 2009. The three reports are available for download at:

<http://www.swift.com/solutions/funds/automation.page?>

http://www.efama.org/index.php?option=com_docman&task=cat_view&gid=88&Itemid=-99

EFAMA and SWIFT confirmed in these reports their intention to increase the survey market coverage and also extend it to the Irish cross-border investment funds industry. This annual report 2009 focuses on Ireland.

The goal of this initiative is to inform all institutions involved in fund processing, as well as the European Commission, the European Parliament and other interested stakeholders, about the industry's progress towards greater standardization and automation.

2. Report Highlights - Ireland

1. This first report on Ireland is based on input from **10 Ireland-based transfer agents (TAs)**: eight third-party and two in-house TAs.
2. We estimate that this **report covers around 80% of the Irish investment funds order volumes** based on ifia data.
3. This report covers **5.9 million third-party investment funds orders** that were processed during 2009 by the 10 survey contributors.
4. The **Irish standardization survey outcome** is summarized in the below table:

	Q4 2009
Total automation rate	86%
ISO automation rate	8%
proprietary ftp rate	78%
manual rate	14%

Table 1: Ireland automation rates - Q4 2009

At this stage no historical evolution nor a regional view on automation rates per location of order givers can be provided. We hope to be in a position to complete these dimensions in the 2010 reports.

5. The 10 Ireland-based transfer agents surveyed **manually processed 0.9 million orders in 2009**.
6. In terms of number of new automated links set up by transfer agents with new order givers, **55 new links were set up in 2009, 50 using ISO and 5 using a proprietary file transfer protocol (ftp)**.

3. Survey Scope and Methodology

The main steps carried out to publish this survey are in accordance with the methodology jointly defined between EFAMA and SWIFT and already used in the Luxemburg report. The principles are outlined below:

a) Survey scope:

- Instruments: cross-border third-party investment funds (mostly UCITS)
- Flows: orders received by the transfer agent from ‘external’ order givers (not in-house orders)
- Markets:
 - o Irish cross-border investment funds
- Players:
 - o Contributors are in-house and third-party TAs

b) Survey contributors:

- Survey contributors are solely transfer agents. This choice was made to avoid duplication of data with order givers.
- The target is to have a sufficient number of contributors to cover at least 70% of estimated total market volumes.
- 10 transfer agents have contributed to this first progress report
 - o 2 in-house transfer agents
 - o 8 third-party transfer agents
- Contributors include the following mix of large/medium/low volume players
 - o 1 TA received above 1 million orders in 2009
 - o 2 TA received between 0.25 million and 1million orders in 2009
 - o 7 TAs received less than 0.25 million orders in 2009

c) Survey management and reporting:

- SWIFT carried out the joint survey, and reported the outcome at market level to the EFAMA’s Fund Processing Standardization Group (FPSG), as well as relevant local fund industry associations.
- Contributors provided monthly automation data.
- The minimum core data to be provided is:
 - o Total number of fund orders received
 - o Split of the total number of orders between:
 - orders received by fax/telephone (‘manual’)

- ISO standardized messages/files (ISO 15022 and 20022 carried on swift and/or another automated channel)
 - Use of multiple bilaterally agreed proprietary formats
- Recommended additional data is:
- Same data set as above-mentioned split by region where the order giver is located. Three regions are identified: EMEA , APAC and Americas.
 - For this first report on Ireland not all contributors were already in a position to provide a) regional split of automation rates per order giver location and b) multi-year trends. This will be worked on for future reporting.

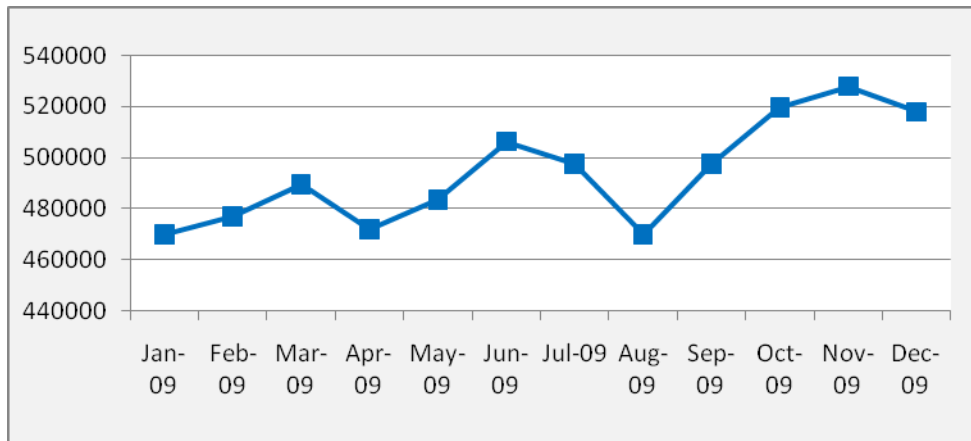
The goal is to issue a progress report once a year to cover end-year data. A mid-year status is also planned to report the evolution of standardization rates during the first six months of each year.

4. Global Overview

4.1. Order volume evolution

In 2009, 5.9 million orders were processed by the 10 survey contributors. This represents an average monthly volume of 547,000 orders.

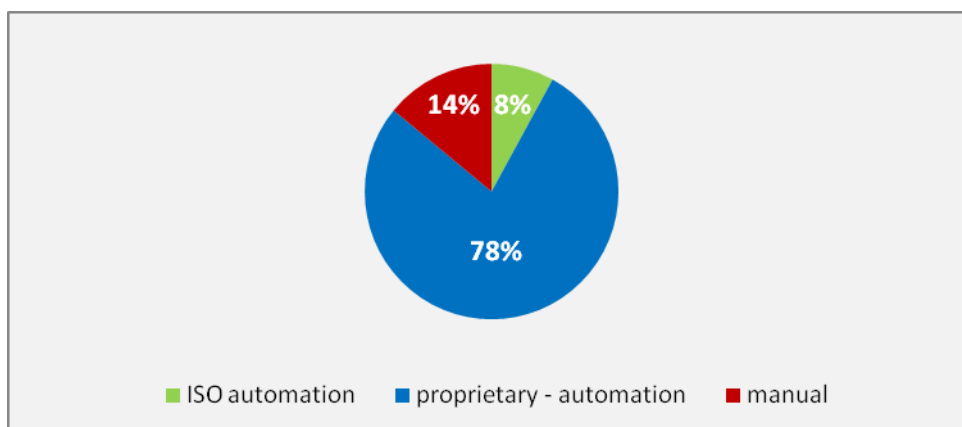
Order volumes volatility is high as is depicted in the graph below. One of the key goals of automation and standardization to minimize the related operational risk and ensure stable high quality service levels in an environment of minimal sensitivity to unexpected volumes changes.



Graph 1: Ireland order volumes evolution - 2009

4.2. Automation and standardization rates

The total automation rate reached 86% in Q4 2009, split as follows: ISO represented 8% of the total volumes and proprietary file transfers 78%.



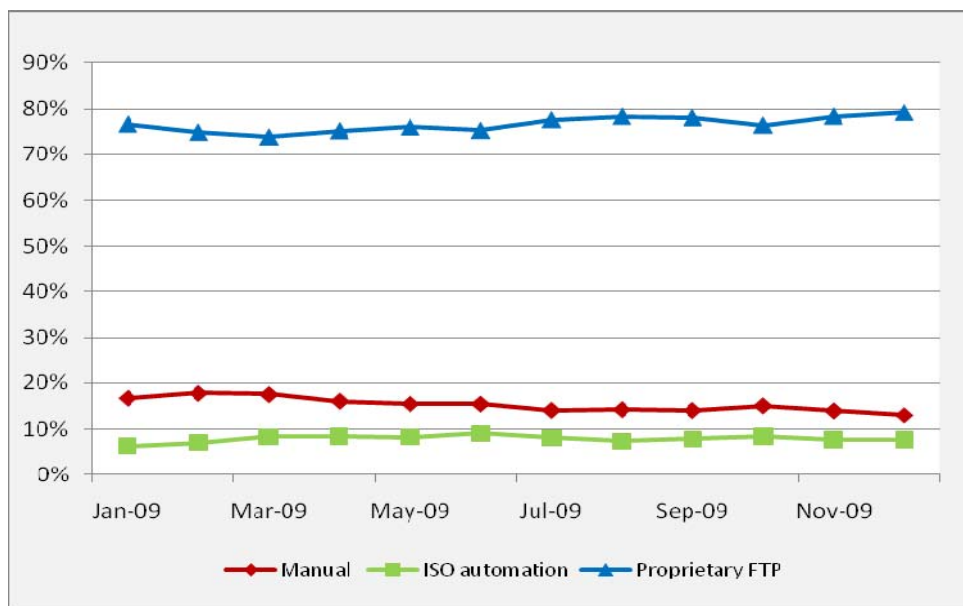
Graph 2: Ireland automation rates - Q4 2009

The various rates evolution over 2009 is detailed in the table below:

	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Total automation rate	82.6%	84.3%	85.9%	86.0%
ISO automation rate	7.3%	8.6%	7.8%	8.0%
Proprietary ftp automation	75.3%	75.7%	78.1%	78.0%
Manual rate	17.4%	15.7%	14.1%	14.0%

Table 2: Ireland automation rates evolution by quarter

The below graph depicts the trendline on a monthly basis:



Graph 3: Ireland automation rate evolution - 2009

All in all 904,500 orders were received by fax during 2009 (i.e. 14% of total order volumes captured in this report).

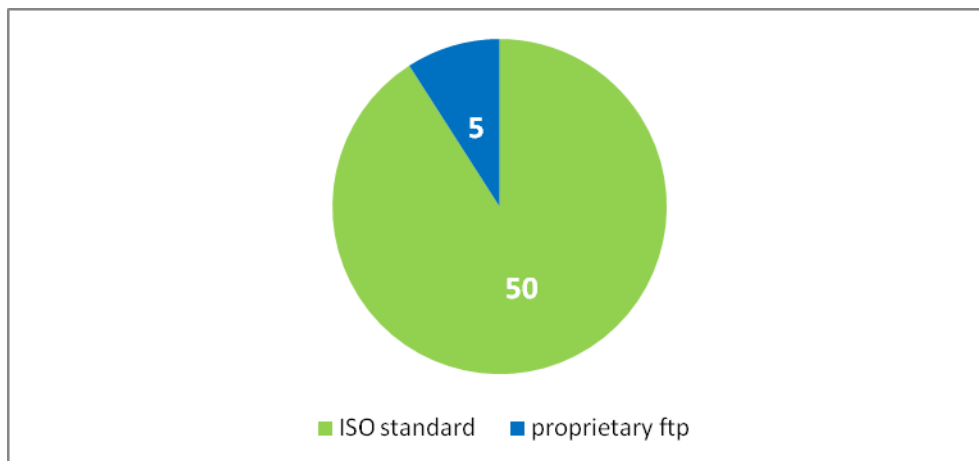
4.3. New automated links set up

To better understand the automation trend, an additional survey was carried out, to which 7 out of the 10 Irish TAs participated, representing 93% of the total order volumes covered in this report.

This additional survey looks at the number of new automated links implemented between January and December 2009 with order givers that were either totally new counterparties with the TA (no previous relationship) or counterparties that were previously working by fax and that moved to automated order flows with the TA.

The survey outcome shows that while proprietary formatted file transfers have historically grabbed the lion’s share of automated orders in Ireland, ISO automation is now massively favoured as the most efficient automation option, in line with EFAMA’s recommendations.

Indeed in 2009 out of the 55 new automated links set up 50 were relying on ISO and only 5 on a proprietary format as shown in the graph below:



Graph 4: Number of new automated links set up in 2009

Most of the new ISO adopters on the distribution side are EMEA-based, in countries including Austria, Belgium, France, Great-Britain, Italy, Luxemburg, Portugal, Spain, the Netherlands; there were few US-based and one Asia-based order givers as well that implemented ISO. The new proprietary ftp links were mainly with US-based order givers.

Next report

The next joint EFAMA-SWIFT Fund Processing Standardization report is scheduled to be published in the Fall and will provide a mid-year status for 2010.