



Fund Processing Standardisation

Tracking industry progress

2016 Mid-Year Data Report

Background

EFAMA and SWIFT publish on a bi-yearly¹ basis trends in standardisation and automation rates of fund orders received by transfer agents (TAs) in Luxembourg and Ireland. These reports showing the evolution of standardisation and automation rates of funds orders are available on both EFAMA and SWIFT websites² dating back to May 2009.

This Mid-year report gives an update about the evolution during the first half of 2016. The EFAMA Fund Processing Standardisation report combines the Luxembourg and Ireland data into one single cross-border fund processing report providing

- a. An aggregated view of both fund processing centres; and
- b. A detailed overview, including the regional split, per fund processing centre.

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 automation of fund orders and use of the ISO messaging standards recommended by EFAMA.

Contents

Report Highlights.....	4
A. Cross-border fund processing standardisation in Luxembourg and Ireland.....	4
B. Cross-border fund processing standardisation in Luxembourg.....	4
C. Cross-border fund processing standardisation in Ireland.....	5
A. Cross-border fund processing standardisation Ireland and Luxembourg.....	6
A.1 Order volume evolution.....	6
A.2 Automation level.....	6
A.3 Standardisation levels.....	7
B. Focus on Luxembourg.....	8
B.1 Order volume evolution.....	8
B.2 Automation level.....	8
B.3 Standardisation levels.....	9
B.4 Regional data.....	9
C. Focus on Ireland.....	11
C.1 Order volume evolution.....	11
C.2 Automation level.....	11
C.3 Standardisation levels.....	12
C.4. Regional data.....	12
D. Standardisation of fund processing in Italy.....	13
E. Standardisation of fund processing in Germany.....	19
F. Next report.....	21

¹ EFAMA and SWIFT publish two fund processing standardisation reports per year: a full year detailed report and a mid-year update report.

² <http://www.swift.com/funds>

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

Report Highlights

A. Cross-border fund processing standardisation in Luxembourg and Ireland

Key insights of the combined surveys coverage:

- 29 transfers agents (TAs) surveyed: 20 in Luxembourg & 9 in Ireland³
 - With an estimated market coverage of 80% of the cross-border market volumes in Ireland and an estimated market coverage of 75% in Luxembourg.
 - Standardisation data collected on 16.6 million incoming orders H1 2016
- In the first half of 2016, the **total volume of orders remains stable with 16.6 million orders**.
 - The volume of **automated processed orders** increased by **0.5%** to **14.1 million**.
 - In the first half of 2016, the adoption of **ISO messaging standards (composed of ISO 15022 and 20022 messages)** slightly decreased by 1.2 percentage points to **50%** in Q2 2016. In parallel, the use of **proprietary ftp** remains quite stable with **34.4%** in Q2 2016. The manual processing rate increased, from 14.6% in Q4 2015 to **15.6%** in Q2 2016.

B. Cross-border fund processing standardisation in Luxembourg

- Comparing the first half of 2016 to the second half of 2015, **order volumes decreased by 1.6%**. In total, **10.5 million orders** were processed by survey contributors during the first half of 2016.
- Among these orders, **8.7 million orders** were processed automatically in the first half of 2016.
- The 20 Luxembourg-based TAs manually processed 1.8 million orders which remains stable compared to the second half of 2015.
- The **total automation rate** of orders processed in Luxembourg reached **81.7%** in Q2 2016 compared to 82.9% in Q4 2015.
- The percentage of automated orders based on the **ISO messaging standards** decreased from 65% during Q4 2015 to **63.8%** in Q2 2016, whereas the use of **proprietary ftp** remains the same (**17.9%** in Q2 2016).
- **Orders incoming from EMEA** represented **71%** against **25%** sent by **APAC-** and **4%** sent by **Americas**-based order givers.⁴

³ The number of survey participants of the Luxembourg funds processing centre and the number of Irish survey participants remained stable compared to the mid 2015 survey.

- The **total automation rate** of orders incoming from **EMEA** increased to **86.5%** in Q2 2016 (compared to 85% in Q4 2015). This reflected a **decreasing use of proprietary ftp rate** (from 18.9% in Q4 2015 to 18.4% in Q2 2016) and an **increasing use of the ISO standardisation rate** (from 66.1% in Q4 2015 to **68.1%** in Q2 2016).
- For orders incoming from the **APAC and Americas regions**, the **total automation rate decreased** respectively to 63% and 72.3% in Q2 2016 (from 71.6% and 73.9% in Q4 2015). In **Americas**, this trend was mainly driven by an **increase of the ISO standardisation** which went up by 7.1 percentage points to **41.9%** in Q2 2016, while the proprietary ftp rate decreased from 39.1% in Q4 2015 to 30.4% in Q2 2016. In the **APAC** region, the decrease in the automation rate reflected a fall in the **ISO standardisation rate** (from 37.1% in Q4 2015 to 35.3% in Q2 2016), with a fall in the **proprietary ftp rate** (from 34.5% in Q4 2015 to 27.7% in Q2 2016).

C. Cross-border fund processing standardisation in Ireland

- In the first half of 2016, the **total volume of orders** was equal to **6.1 million**. As such, order volumes increased by 3.5% compared to the second half of 2015.
- The 9 Ireland-based TAs **manually processed 0.67 million orders** in the first half of 2016.
- The **total automation rate** of orders processed by Irish transfer agents reached **89.1%** in Q2 2016.
- The percentage of automated orders based on the **ISO messaging standards** decreased to **26.1%** in Q2 2016 (against 26.9% in Q4 2015,) and the **proprietary ftp rate reached 63%**.
- The **ISO standardisation rate of APAC⁵**, -originating orders increased in Q2 2016 to **18.4%** (against 16.6% in Q4 2015). In Americas and EMEA, the ISO standardisation rate of incoming orders went down to respectively **9.6%** and **10.4%** in Q2 2016 (against 10% and 11.4% in Q4 2015).

⁴ Regional statistics are based on data provided by 14 (out of the participating 20) TAs in Luxembourg. This represents 58% of the Luxembourg survey volumes for H1 2016.

⁵ Regional statistics are based on data provided by 5 TAs (out of the 9 Irish survey participants) in Ireland; representing 65% of the survey volumes of the Ireland funds processing centre for the first half of 2016.

A. Cross-border fund processing standardisation Ireland and Luxembourg.

A.1 Order volume evolution

Across Ireland and Luxembourg, 16.6 million orders were processed by the 29 survey participants by end of June 2016. With a monthly average of 2.77 million orders, order volumes increased by 0.3% compared to the second half of 2015.

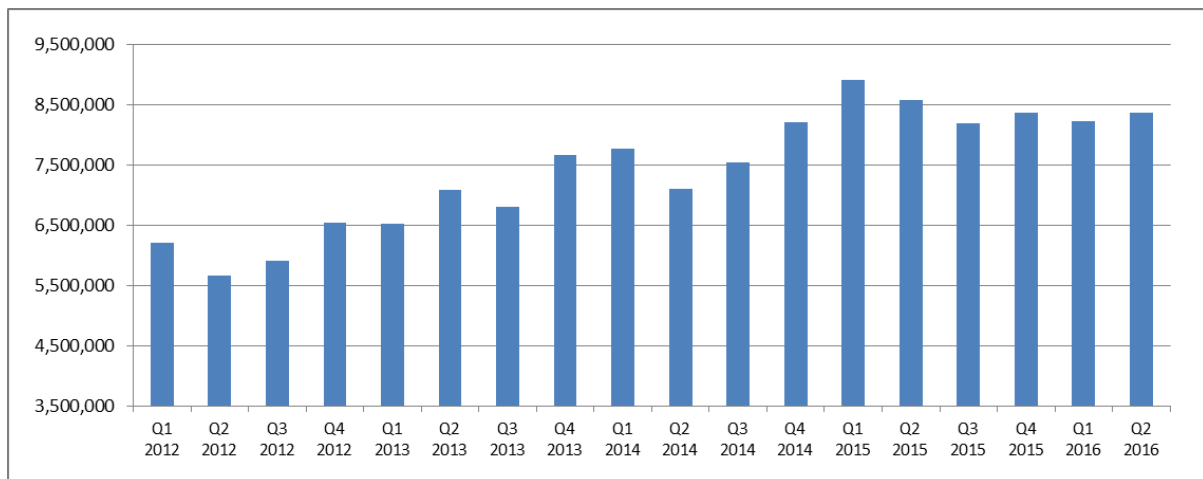


Figure 1 - Order volume evolution 2012 – 2016

A.2 Automation level

The total automation rate slightly decreased by 1 percentage points in the first half of 2016 compared to last year reaching 84.4% in Q2 2016, against 85.4% where it stood in Q4 2015.

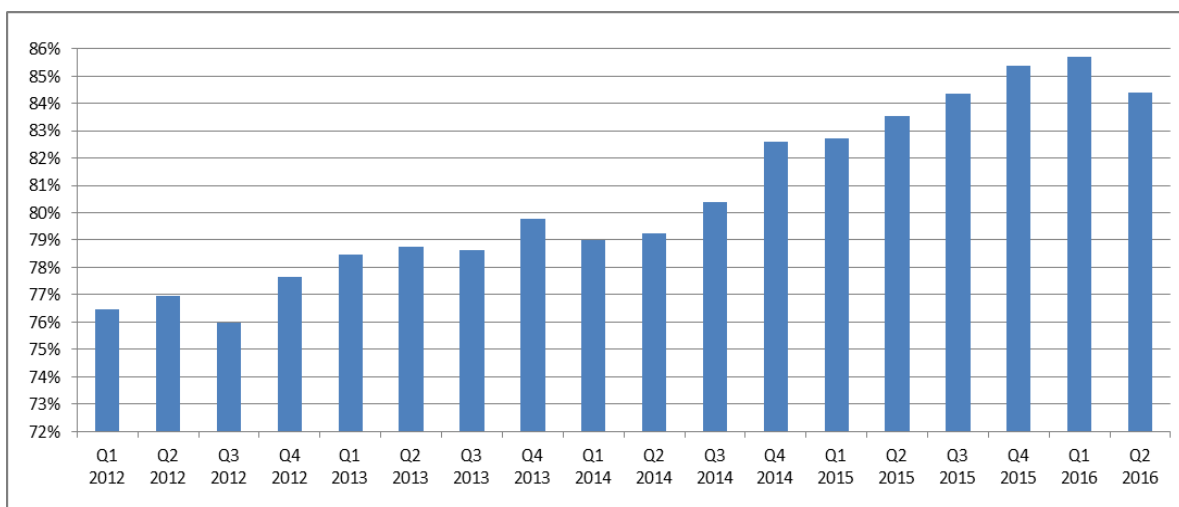


Figure 2 - Automation level evolution 2012 – 2016

A.3 Standardisation levels

In Q2 2016, the adoption of ISO decreased by 1.2 percentage points to 50% (against 51.2% in Q4 2015). In addition, the adoption of proprietary formats remains quite stable at 34.4% in Q2 2016. The manual processing rate increased to 15.6% in Q2 2016 (against 14.6% in Q4 2015).

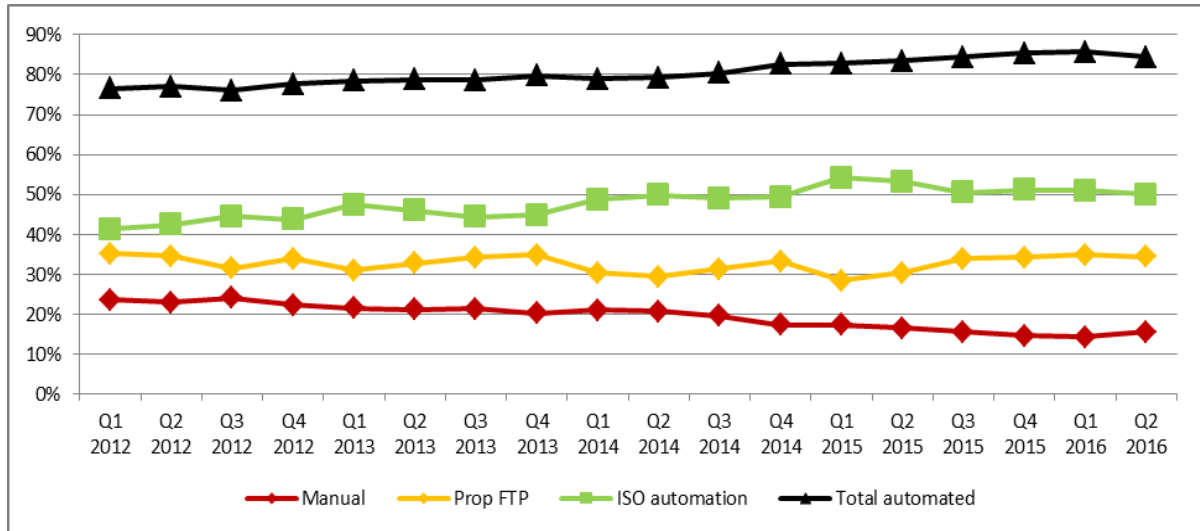


Figure 3 - Standardisation rate evolution 2012 – 2016

B. Focus on Luxembourg

B.1 Order volume evolution

The 20 Luxembourg survey contributors processed 10.5 million orders during the first two quarters of 2016. Representing a monthly average of 1.74 million orders, volumes decreased by 1.6% compared to the second half of 2015.

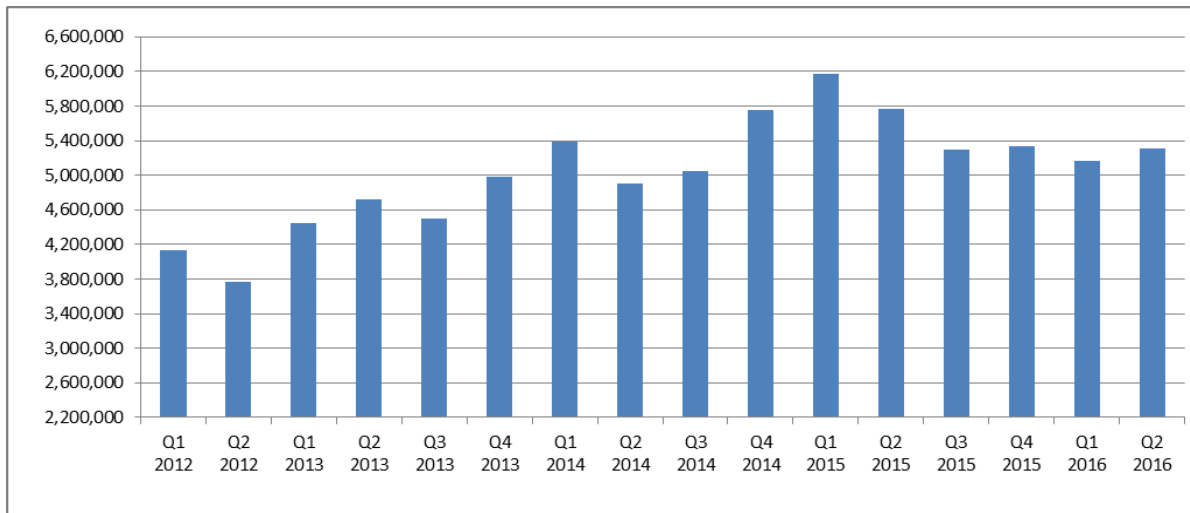


Figure 4 - Order volume evolution 2012 - 2016

B.2 Automation level

In Q2 2016, the total automation rate decreased to 81.7% compared to Q4 2015 (where it stood at 82.9%).

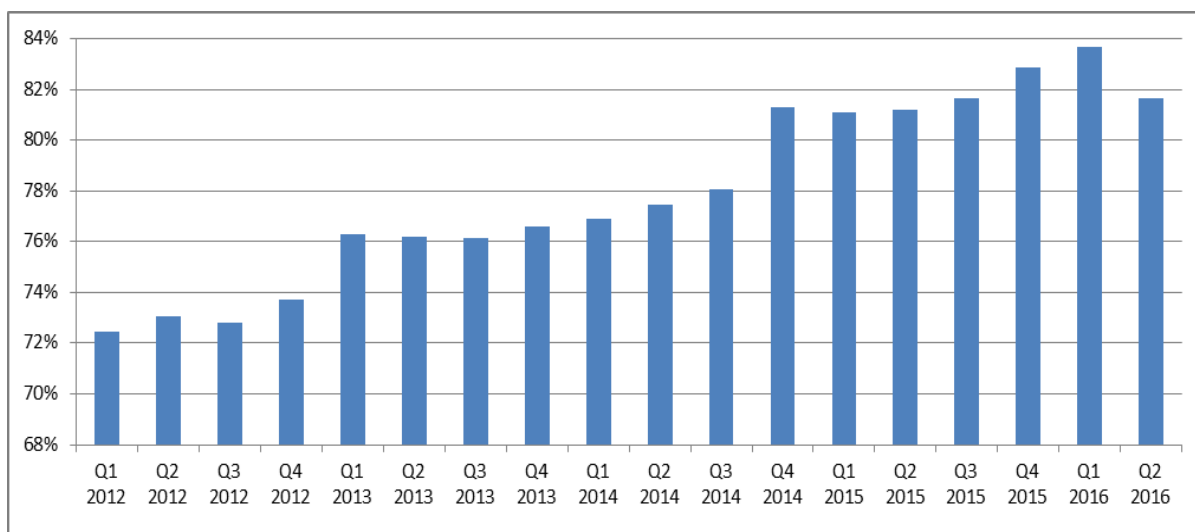


Figure 5 - Automation level evolution 2012 - 2016

B.3 Standardisation levels

The ISO messaging standard decreased to 63.8% during Q2 2016 (from 65% in Q4 2015). The proprietary formats automation rate remains stable at 17.9% in Q2 2016. The share of manually processed orders went up from 17.1% in Q4 2015 to 18.3% in Q2 2016.

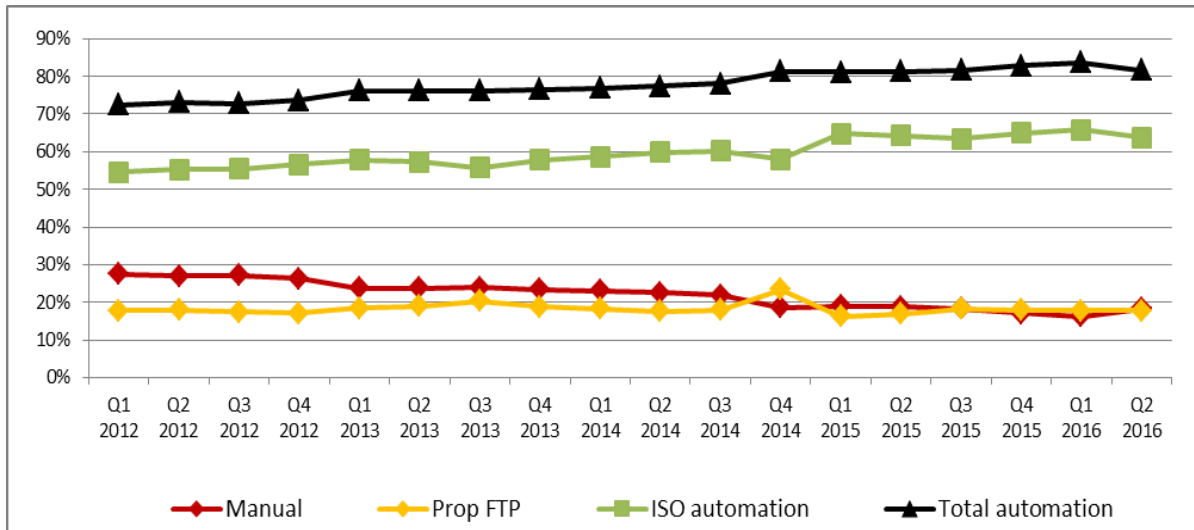


Figure 6 - Standardisation rate 2012 - 2016

B.4 Regional data⁶

B.4.1 Split of volumes by region

The proportion of orders incoming from EMEA and APAC region changed in H1 2016 compared to H2 2015. EMEA region represented 71% of incoming order volumes in Luxembourg in the first half of 2016 compared to 70% in H2 2015, while APAC generated 25% of incoming order volumes against 26% in H2 2015 and Americas 4%.

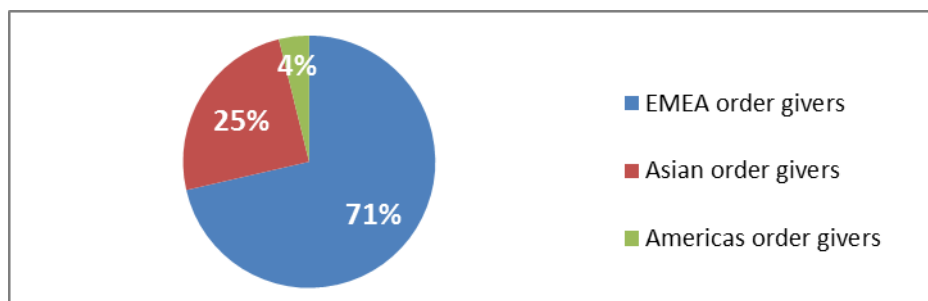


Figure 7 - Order volumes per region – First half of 2016

⁶ Please note that the regional data is based on contributions of 14 out of the 20 transfer agents, representing about 58% of the survey volumes for H1 2016. This explains data variations compared to the full survey sample statistics.

B.4.2 Split of automation and standardisation rates by region

The total automation rate of orders incoming from the EMEA region increased to 86.5% in Q2 2016 compared to 85% in Q4 2015. This was driven by the increasing ISO standardisation rate which rose by 2 percentage points to 68.1% while the proprietary ftp rate fell by 0.5 percentage points to 18.4% in Q2 2016.

The total automation rate of orders sent by order givers located in APAC and Americas decreased between Q4 2015 and Q2 2016.

In the APAC region, this was due to a decrease of the ISO standardisation rate from 37.1% to 35.3% in Q2 2016 and a fall of the proprietary ftp rate from 34.5% to 27.7% in Q2 2016.

In Americas, the automation rate decreased from 73.9% to 72.3% in Q2 2016, with an increase in the ISO standardisation rate to 41.9% and a fall in the proprietary ftp rate to 30.4%.

	Manual			Proprietary			ISO automation			Total automation		
	Q2 2016	Q4 2015	Growth	Q2 2016	Q4 2015	Growth	Q2 2016	Q4 2015	Growth	Q2 2016	Q4 2015	Growth
EMEA	13.5%	14.9%	-1.4%	18.4%	18.9%	-0.5%	68.1%	66.1%	2.0%	86.5%	85.0%	1.5%
APAC	37.0%	28.4%	8.6%	27.7%	34.5%	-6.8%	35.3%	37.1%	-1.8%	63.0%	71.6%	-8.6%
Americas	27.7%	26.1%	1.6%	30.4%	39.1%	-8.7%	41.9%	34.8%	7.1%	72.3%	73.9%	-1.6%

Figure 8 – Luxembourg standardisation rates per region

C. Focus on Ireland

C.1 Order volume evolution

By end of June 2016, the 9 Irish survey participants processed 6.1 million orders. This equals a monthly average of 1.02 million orders. As such, the volume of orders increased by 3.5% compared to the second half of 2015.

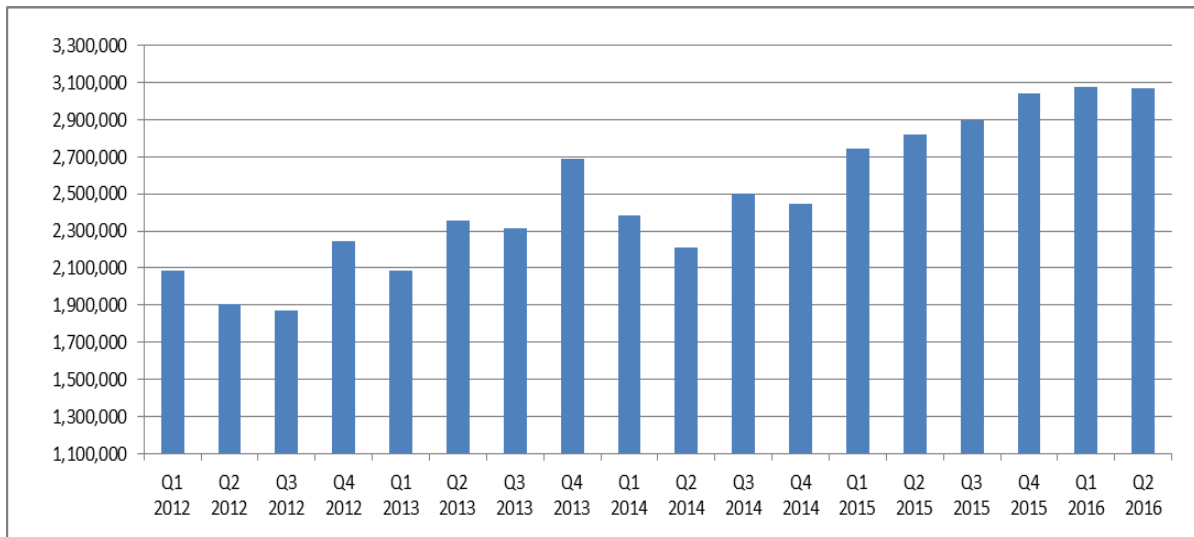


Figure 9 - Order volume evolution 2012 – 2016

C.2 Automation level

In Ireland, the total automation rate reached 89.1% during Q2 2016 (against 89.7% in Q4 2015).

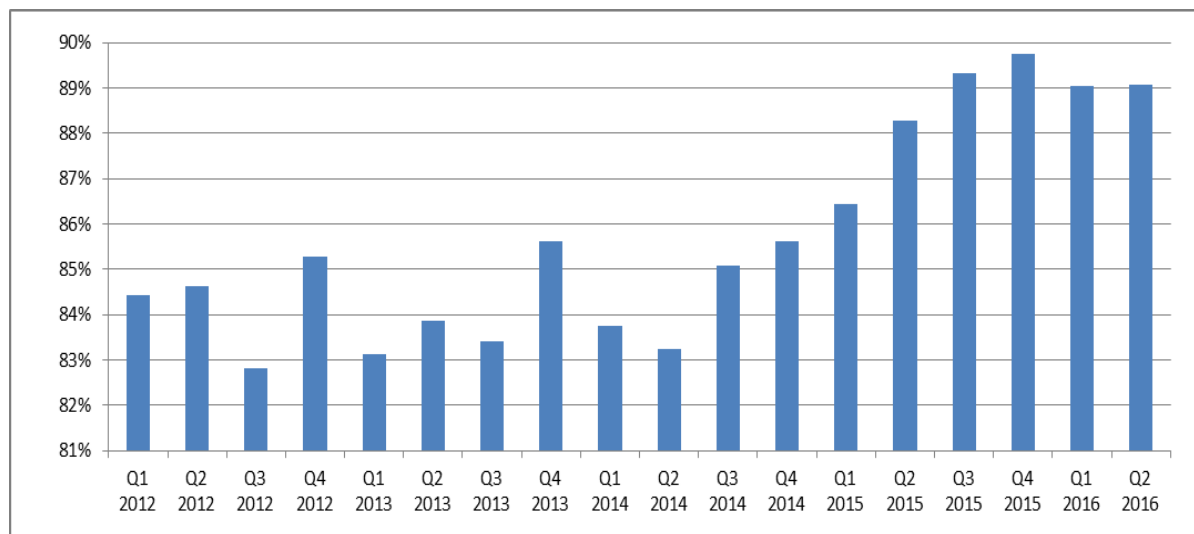


Figure 10 - Automation level evolution – 2012 - 2016

C.3 Standardisation levels

In the second quarter of 2016, the ISO adoption rate moved down to 26.1% (against 26.9% in Q4 2015), and the adoption of proprietary formats remains quite stable at 63% in Q2 2016. The share of manually processed orders went up to 10.9% in Q2 2016 compared to 10.3% in Q4 2015.

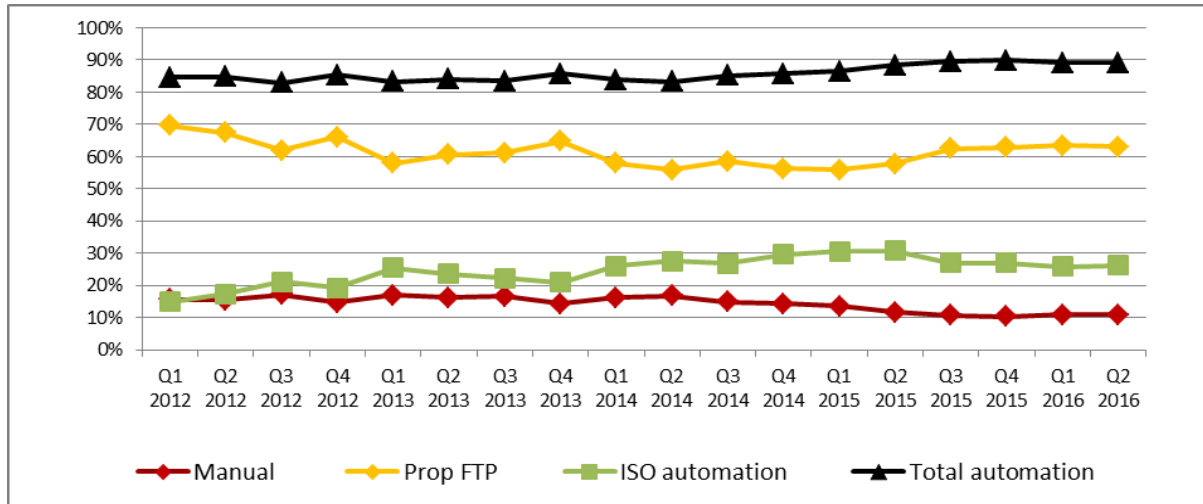


Figure 11 - Standardisation rate evolution 2012 – 2016

C.4. Regional data⁷

The ISO standardisation rate in APAC grew by 1.8 percentage points to 18.4% in Q2 2016 (against 16.6% in Q4 2015) while the proprietary files rate increased to 61.7% in Q2 2016 (against 61.1% in Q4 2015).

For EMEA, the ISO standardisation rate decreased to 10.4% in Q2 2016 (against 11.4% in Q4 2015) and the automation rate of proprietary files increased to 86.9% in Q2 2016 (against 85.4% in Q4 2015).

The ISO standardisation rate in the Americas region decreased from 10% in Q4 2015 to 9.6% in Q2 2016. Proprietary files were subject to a decrease with a rate moving from 73.1% in Q4 2015 to 72% in Q2 2016.

	Manual			Proprietary			ISO automation			Total automation		
	Q2 2016	Q4 2015	Growth	Q2 2016	Q4 2015	Growth	Q2 2016	Q4 2015	Growth	Q2 2016	Q4 2015	Growth
EMEA	2.7%	3.2%	-0.5%	86.9%	85.4%	1.5%	10.4%	11.4%	-1.0%	97.3%	96.8%	0.5%
APAC	19.9%	22.3%	-2.4%	61.7%	61.1%	0.6%	18.4%	16.6%	1.8%	80.1%	77.7%	2.4%
Americas	18.3%	16.9%	1.4%	72.0%	73.1%	-1.1%	9.6%	10.0%	-0.4%	81.7%	83.1%	-1.4%

Figure 12 – Ireland standardisation rates per region

⁷ Regional breakdown information is available from a subset of the Irish survey contributors (5 out of 9) representing 65% of the volumes. The regional percentages are calculated on this subset.

D. Standardisation of fund processing in Italy

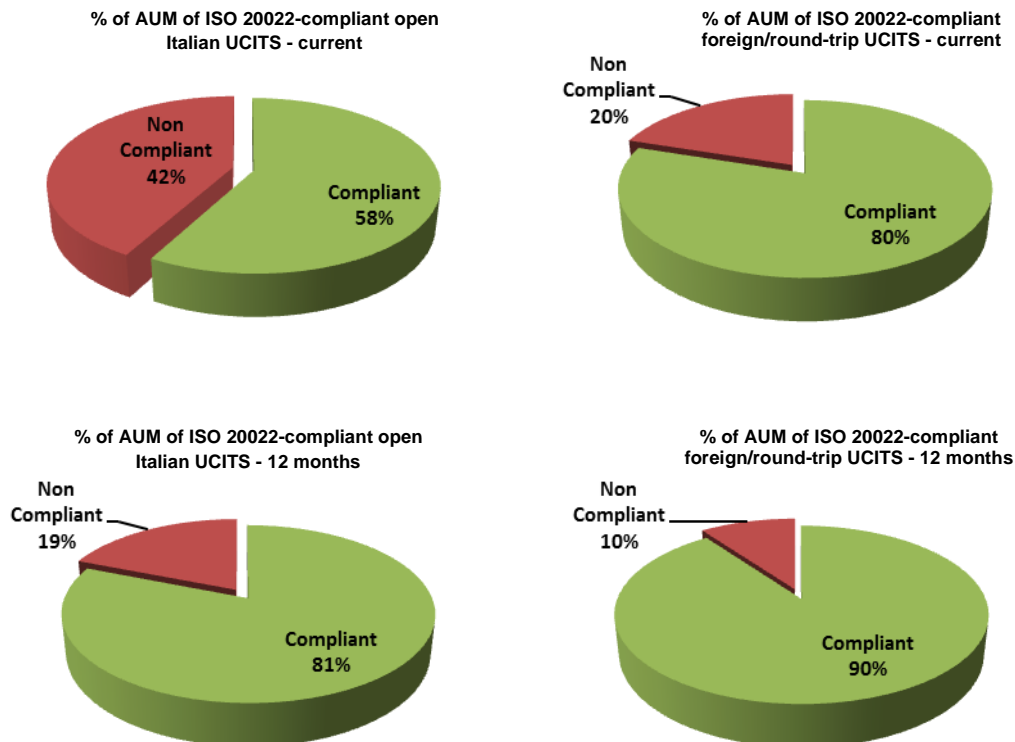
In June 2016 a new revised version⁸ of the standardization Guidelines were published, showing the success of the idea and the continuing growth of the scope of the standardization process across the Italian Asset management industry.

The Italian market has launched its rolling out automation project to ISO20022 communication standards between **asset managers, intermediaries, local TAs and custodian banks.**

Indeed in July 2015 a questionnaire⁹ was disseminated via the trade associations (Assogestioni and ABI) to the asset management community in Italy to monitor the level of adoption of the standards. Here are the main highlights:

- A. 58% of AUM (Asset Under Management) of Italian domiciled funds and 80% of AUM of foreign/ round-trip funds can now potentially be reached via ISO 20022 messages sent by the distributors to the asset management firms/payment agents.**

Scenario of AUM reachable with ISO 20022



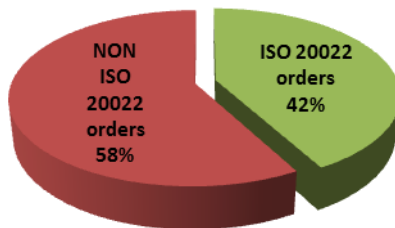
⁸ The new version of the Guidelines includes: TDT – Single Leg Fund transfer model - consolidation of ops model & timeframe; Transfer of positions/investments between payment agents; "AML Due diligence" data set; "FATCA" data set; "CRS" data set; Price report; Standard form for initial subscription.

⁹ 10 Asset managers, 32 Distributors and 7 SIP replied to the questionnaire.

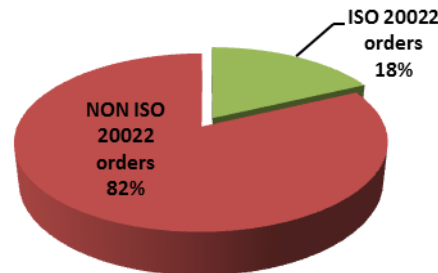
- B. 42% of the orders on Italian funds and 18% on foreign and round-trip funds are now exchanged via ISO 20022 messages sent by the distributors to the asset management firms or payment agents.**

Orders received with ISO 20022

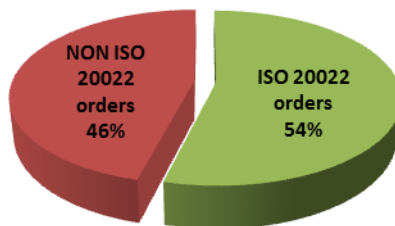
Orders on open Italian UCITS received via ISO 20022 vs total market orders - current



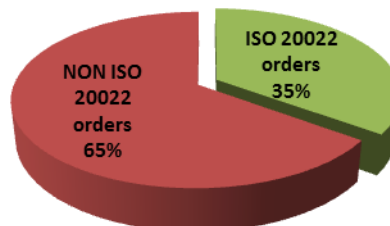
Orders on open foreign/round trip UCITS received via ISO 20022 vs total market orders - current



Orders on open Italian UCITS received via ISO 20022 vs total market orders - 12 months



Orders on open foreign/round trip UCITS received via ISO 20022 vs total market orders - 12 months



Open Italian funds

Most of the major asset management firms have already adopted the Standard (58% of AUM), and the volume of operations settled by ISO is about 42%.

Although this level of diffusion is positive, the following two factors must be noted:

- In most cases, the volumes of orders were reached through the migration of the ‘captive’ distributor, which is typically a major banking distributor, and not via an extensive migration of the distribution network;
- The 12-month forecast is only "fair", especially with reference to the orders (+28%) whereas for the AUM it is 40%. Also in this case, a crucial factor is the absence of any real plan to migrate the whole distribution network.

Looking at the dynamics of the adoption of the Standard, whilst the first step must be taken by an asset management firm to become “ISO compliant”, the real migration process can only take shape if it is subsequently driven by the distributors. The drivers are therefore a

combined effect of the asset management firms and the distributors.

Round-trip/foreign funds

In the Italian distribution model, the foreign investment companies (SICAVs) use a local payment agent; therefore, unlike the system for the Italian funds, the cost of adapting to the Standard is not borne by the investment company (the foreign SICAV) but by the payment agent.

In the market there are six main counterparties with the role of market paying agents, which handle approximately 90% of the total volumes. Most of the payment agents are already ISO-compliant, and therefore it can be said that almost all of the foreign investment companies can now be reached via ISO 20022 messaging.

The picture is different if we look at the domestic volumes of the operations exchanged between payment agents and distributors: as this distribution typically has an open architecture framework, it would be logical to expect an extensive use of ISO 20022. In reality, while some payment agents have migrated a large part of their volumes, others are still at a stage in which the volumes are limited (see orders received with ISO 20022 graphs).

One positive factor is the 12-month growth forecast, which is 94%.

With regard to the cross-border market, and therefore the relationship between the payment agent-transfer agent/SIVAC, it can be seen that there are significant results in terms of the use of the ISO 20022 standard via SWIFT, which is a common and heavily used mode of communication.

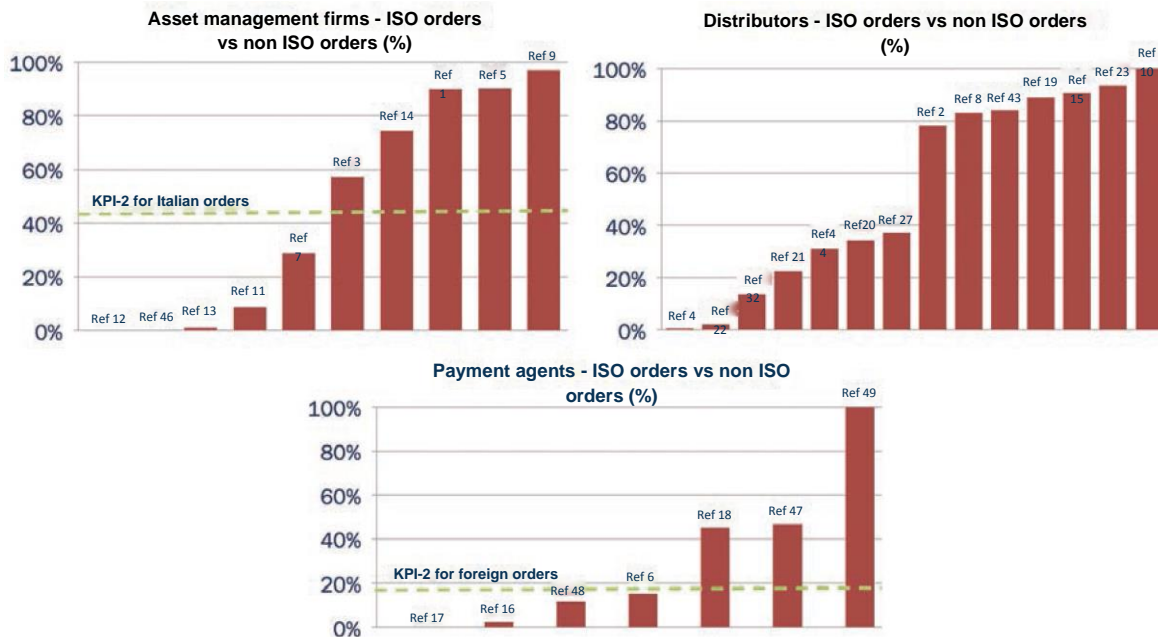
From the point of view of operational processes, certain payment agents who are particularly attentive to service levels and the automation offered to their customers, are now analysing and implementing the model for the transferability of funds units, both in the phase that involves the exchange of information between the distributor and the payment agent, and in the phase between the payment agents themselves (e.g. tax data).

The results expected from the implementation of this model are greater operating efficiency and a significant reduction in the transfer times, to the benefit of the end investor.

The values of AUM – currently – go from 58%-63% on the Italian funds, while on the transaction volumes, the figure rises from 42% to 44%. The situation is similar for the 12-month forecasts.

It is interesting to look at the trends in ISO operations, by type of counterparty. The figure below shows the picture for the percentages of adoption of ISO messaging for asset management firms, distributors and payment agents, respectively.

Orders received with ISO 20022

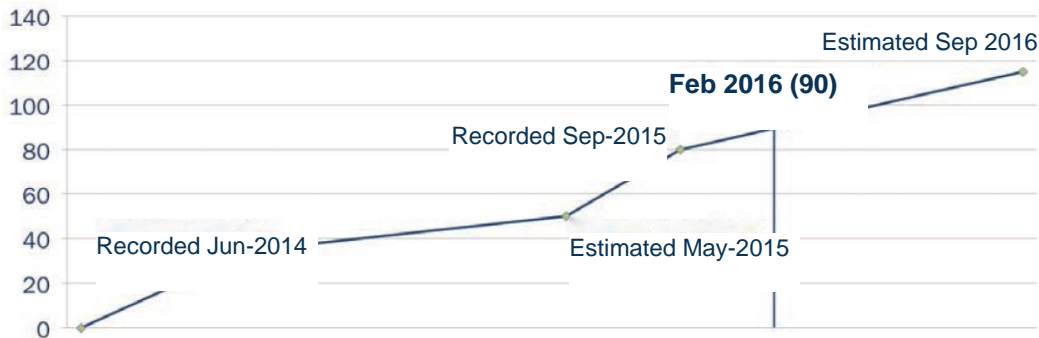


The above graph shows that the community contains a large number of "virtuous" intermediaries in all categories (distributors, payment agents and asset management firms), which have already concluded a significant process of adopting the standard, with percentages of usage of ISO 20022 messaging exceeding 70-80%.

C. Growth rate of transactions orders placed on ISO 20022 based standards since June 2014 is of 128%

The figure below shows the trend by combining two specific surveys (questionnaires of June 2014 and September 2015) and two estimated measurements (May 2015 and September 2017).

Number of ISO 20022 orders on a daily basis (in thousands)



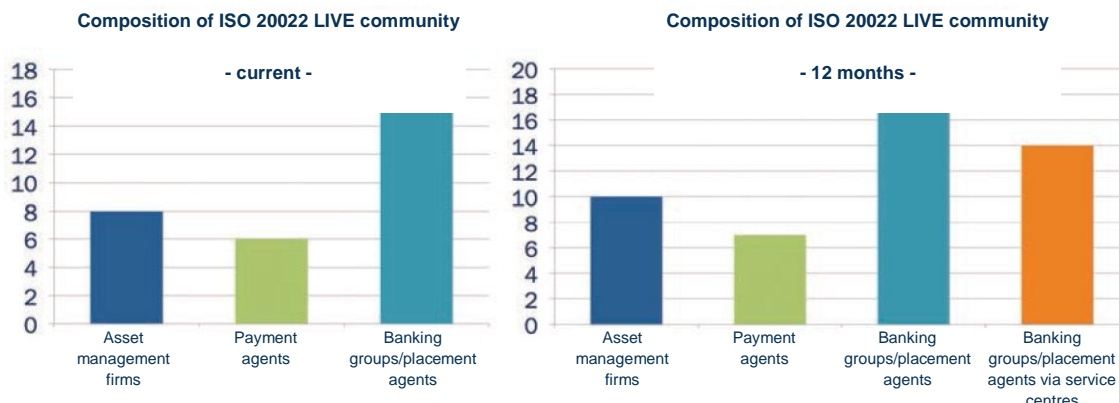
The figure recorded in September 2015 shows an average of 80,000 ISO operations exchanged daily between distributors and asset management firms/distributors. The estimated growth expected at five months (September 2015-February 2016) was 12%, with an average number of operations of 90,000.

The growth expected at 12 months according to the survey (September 2015-September 2016) is 43%, was 120,000 operations.

D. 30 Institutions are now part of the Italian Funds ISO20022 community (Banks, asset managers and transfer agents).

Another view of the level of ISO 20022 adoption can be taken from analysing the size of the community that has implemented the Standard or is expected to do so within the next 12 months.

Composition of ISO 20022 community



The national community which is active in ISO 20022 comprises 30 entities (banks/banking groups, asset management firms and payment agents).

The 12-month forecast will see a potential growth in the representation of banks and banking groups, with particular significance for those banking entities that use outsourcers.

The outsourcers that support banking intermediaries with their technology structures and operations will be fundamental in enabling the extensive use of ISO 20022 messaging in the immediate future.

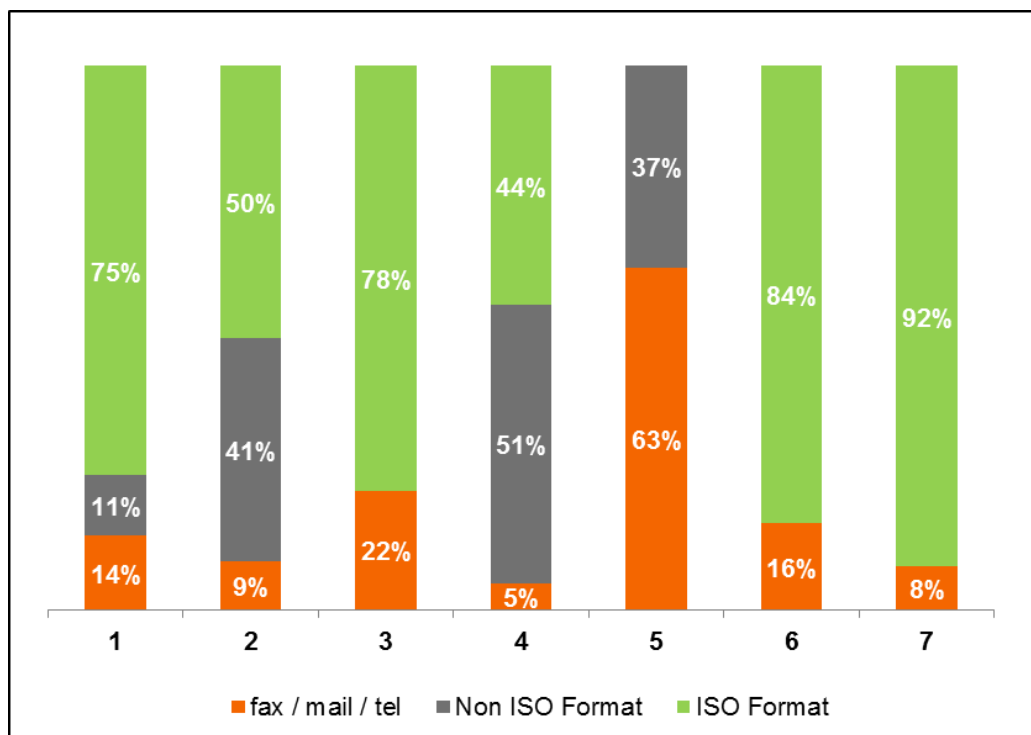
The expected 12-month growth of asset management firms is numerically limited, but it is significant in terms of the new AUM that can be reached through the standard.

The expected 12-month growth in payment agents is numerically not significant, as the market for payment agents contains a limited number of entities that already support ISO 20022 messaging.

E. Standardisation of fund processing in Germany – A case study

Germany is the largest fund distribution market in the EU with over 80 million population. Therefore, it is good news that the Praxisforum Depotbanken (PFD) and BVI, the German Funds Association, agreed to cooperate on a case study on 2015 fund processing standardisation levels in the German fund market. The case study presents the fund processing transactions in 2015 between distributors – often banks – and currently seven depository banks (“Verwahrstellen”) of different size acting as “TA” of German domiciled funds (DE ISINs). It should be remembered, however, that German funds are settling in the local CSD and not with a TA. It is planned to include more depository banks into the case study. After a successful completion of the 2015 case study a more regular participation in this report may be considered by the German market place.

- **Survey coverage: 7 Verwahrstellen (referred to as TAs)** contributed to the survey; they cover 50% of the German market. The order volumes processed by the 7 survey contributors reached 0.48 million orders in 2015.

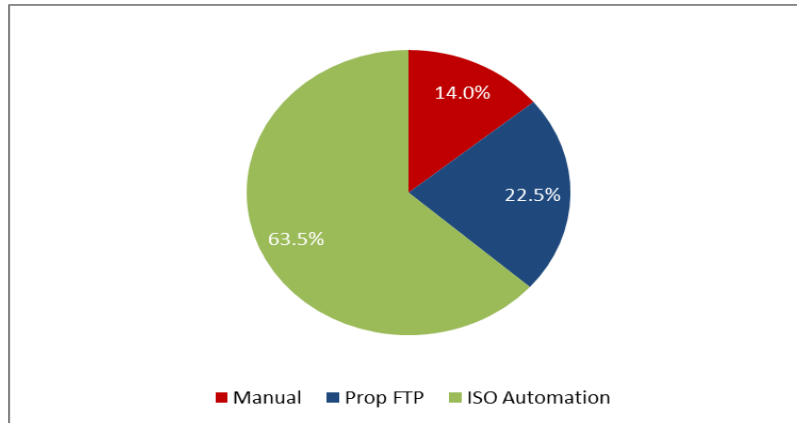


- **Total automation rate¹⁰** of orders in 2015 reached **86%**. However, the above graph also shows a great dispersion of automation levels sometimes with considerable levels of non ISO format solutions and still considerable amounts of use of fax.
- **ISO automation rate¹¹** reached **63.5%** in 2015.

¹⁰ The ‘total automation rate’ is the sum of the ‘ISO automation rate’ + the ‘proprietary formatted ftp’ rate.

¹¹ The ‘ISO automation rate’ corresponds to the standardisation rate, i.e. the rate of automated orders using an ISO format (ISO 20022 or ISO 15022 ‘fund template’).

- Only 14% of the orders were processed **manually**.



Germany fund order processing rates 2015

F. Next report

The next joint EFAMA-SWIFT Fund Processing Standardisation report is planned for publication in Q2 2017 and will cover progress towards standardisation in the 2012-2016 period.