

## **BUSINESS JUSTIFICATION**

### **FOR THE UPDATE OF THE UNIFI (ISO 20022) FINANCIAL REPOSITORY**

**Name of the request:**

Total Net Asset Value Statement

**Submitting organization:**

ISITC-IOA

**Scope of the registration request:**

The general scope of this request includes the registration of a new message standard covering Net Asset Valuation reporting for the following financial instruments, business areas and processes:

<b>Financial instruments</b>	Cash and Short Term instruments Equity Fixed income Listed and multi-leg derivatives
<b>Business areas</b>	Securities Management
<b>Business processes</b>	Securities Reconciliation

The detailed scope of this request includes the following message names and message scopes for the business process:

<b>Business Processes</b>	<b>Message Names</b>	<b>Message Scopes</b>
Securities Reconciliation	Net Asset Value statement	The Net Asset Value Statement message is sent between account servicing institution and account owner or its' designated agent to report the net asset valuation, and all of its components, of a fund

**Purpose of the Registration Request:**

Investment Managers require Net Asset Value reporting in order to perform reconciliations between their internal systems and the account servicer. Their control processes include a comparison between internally calculated NAV and that of whichever firm is maintaining the official books and records. Generally the service provider and the Investment Manager generate independent NAV's. In order to validate internal data against the official NAV, all net values are first compared, and any identified differences are further investigated

To a lesser extent, clients or their appointed providers may request monthly NAV reconciliations from Investment Managers as part of the list of reporting deliverables. The proposed message would allow the firm to perform additional reconciliations at lower tolerances in shorter timeframes.

The messages that are currently being used for reconciliations purposes do not include all the elements that are required to perform Total Net Asset Value reconciliations. Additionally, a combination of these messages is required to perform a complete reconciliation. Those messages include the MT950 Statement of Cash Transactions, the MT535 Statement of Holdings, the MT536 and the MT537. Examples of some of the information required but not included on these messages are pending foreign exchange activity, audited settled cash balances, and the actual total net asset value of a fund. The purpose of the proposed message would be to automate the reporting of Total Net Asset Value, which is currently done via a hard copy accounting statement therefore allowing Investment Managers to further automate their reconciliation of Total Net Assets to the servicing institution.

Additionally, in the current environment, this data is received from multiple data sources, and in various protocols which make the reconciliation process inconsistent across the industry as well as highly manual in nature.

The full benefits of this initiative will be delivered to the financial industry with the development and registration of message standards prevailing in the financial reporting and reconciliation arenas. Implementation benefits will include among others: facilitated end-to-end reporting and Net Asset Value reconciliations performed at lower costs, increase of process automation across asset and customer classes through an increased automation of financial statement reporting delivery.

#### **Community of users:**

- Investment Managers: require Net Asset Value reporting in order to perform full and complete reconciliations between their internal systems and the account servicer
- Outsourcing Agents: require Net Asset Value reporting in order to perform full and complete reconciliations between their internal systems and the account servicer
- Custodian Banks: are required to produce Net Asset Value reporting to clients and investment managers
- Funds Companies: require Net Asset Value reporting in order to perform full and complete reconciliations between their internal systems and the account servicer, if external; required to produce Net Asset Value reporting to clients
- Shareholders: require Net Asset Value reporting to assess their financial profile
- Transfer Agents: require Net Asset Value reporting in order to perform full and complete reconciliations between their internal systems and the account servicer, if external; required to produce Net Asset Value reporting to clients
- Corporate Entities: require Net Asset Value reporting in order to perform full and complete reconciliations between their internal systems and the account servicer

### **Timing and development:**

- The Investment Management community has expressed a need for the urgent development of the message in order to mitigate the operational risks associated with the inconsistencies that exist currently in the industry.
- Messages to be developed along with user community. No specific timeframe has been defined.
- This initiative will involve the participation of ISITC, SMPG, as well as the *potential committed* involvement of SWIFT ~~and FIX~~. We would additionally expect to engage the Asset Managers Forum group of the Bond Market Association to contribute in the development of the message, *as well as any other groups that have done work in this space*.
- ISITC is committed to participating in the future message maintenance.

### **Contact persons:**

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### **Intellectual Property Rights (IPR):**

ISITC-IOA confirms its knowledge and acceptance of the UNIFI IPR policy for contributing organizations, as follows.

*“Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the contributing organization grants third parties a non-exclusive, royalty-free license to use the published information”.*

### **Comments received from RMG members and disposition of comments proposed by the submitting organisation**

This business justification has been submitted to the RMG for comments on 14 November 2005 with a response deadline of 12 December 2005.

Australia and the UK sent comments which are reproduced and addressed below. As a result of below disposition of comment, the text of this Business Justification has been updated using red italic characters.

#### Comment from Australia

Australia's comment is that the Funds CIV group has recently published standards for NAV reporting for managed funds.

Can the group proposing the new NAV messages for equities and fixed interest, ensure that they adopt the recent NAV work done for funds.

It would be terrible to see different standard data dictionary items and conventions between funds and equities for NAV.

#### Disposition of Australian comment

The business justification has been updated to welcome the engagement of any groups that have done work in this space. A query has been sent to the Australian representative to get more information on the mentioned initiative.

#### Comment from United Kingdom

GB urges that under the "Timing and Development" clearer positive involvement from the organisations listed is confirmed in order to support the development of this International standard. Current wording such as "...potential involvement..." and "...expect to engage..." seems a little weak. Moreover the scope of this work should be of interest to a wider cross section of industry bodies and it would be preferential to see them included (unless the opinion of the submitter is that they are being fully represented by the SMPG?). The inclusion of these organisations is felt to be vital in ensuring that any ISO 20022 compliant standard that emerges is product and geographically neutral.

#### Disposition of UK comment

The business justification has been updated to reflect the formal engagement of SWIFT.