

BUSINESS JUSTIFICATION

FOR THE DEVELOPMENT OF NEW UNIFI (ISO 20022) FINANCIAL REPOSITORY ITEMS

A. Name of the request:

Alternative Funds.

B. Submitting organization:

S.W.I.F.T. SCRL ("SWIFT"),

Avenue Adèle 1,

B-1310 La Hulpe,

Belgium

C. Scope of the new development:

This registration request covers the development of messages to support the alternative funds instruments, such as non-unitized limited partnerships, Real Estate Investment Trusts (REITs), investment trusts, hedge funds and non-standardised investment products. The results of an in-depth gap analysis of alternative funds requirements for order processing shows that, for the more 'exotic' alternative funds instruments, and to support the processing of alternative funds that, for example, have a side pocket component or are a limited partnership, it is not possible to use the existing ISO 20022 investment funds messages, as these were designed specifically to support the mutual fund industry. The analysis showed that the differences between mutual funds and alternative funds instruments, particularly the non-unitized instruments, are sufficiently different to warrant the need for separate alternative funds messages. The analysis also shows that if the scope of the existing mutual funds messages was to be widened to cover the alternative funds requirements, then the resulting messages would be so diluted that some of the benefits to the mutual funds industry would be eliminated.

Thus, it has been proposed that specific messages to support the order process for alternative funds are developed. In order to foster compatibility and consistency between the mutual funds and the alternative funds messages, the alternative funds messages will be based upon, to a certain extent, the mutual funds messages, and the cancellation messages will be made generic enough to be applicable to the mutual funds as well.

It is anticipated that eight messages will be developed to facilitate the alternative funds order process:

- [1] Alternative Funds Subscription Order
- [2] Alternative Funds Subscription Order Confirmation
- [3] Alternative Funds Redemption Order
- [4] Alternative Funds Redemption Order Confirmation
- [5] Alternative Funds Order Instruction Status Report

- [6] Alternative Funds Accounting Statement of Holdings
- [7] Investment Fund Order Cancellation Request (*)
- [8] Investment Fund Cancellation Advice (*)

(* *generic investment fund message – see descriptions below.*)

Alternative Funds Subscription & Redemption Orders and Confirmations

In addition to the data elements required for non-alternative fund investment funds, alternative funds instructions or confirmations require functionality for:

- Employee Retirement Income Security Act (ERISA),
- side pocket identification and quantity,
- waiver information for non-standard orders,
- series identification,
- lot identification, lot order data and quantity,
- payment reference,
- confirmation of non-unitized funds,
- gross asset value (GAVL) and estimated gross asset value (EGAV) prices,
- hold back amount and date,
- parties, such as fund broker, custodian, prime broker, contact person and contact information.

For the non-unitized instruments, the concept of units and, in some cases, price, no longer exist and so elements that must be mandatory for the mutual funds need to be optional in the alternative funds space. Elements in the mutual funds that are not applicable to alternative funds such as Order date, Expiry Date, Request NAV currency need to be deleted. In addition, the alternative funds messages will allow only one order/confirmation in each message, so repetitiveness needs to be removed.

Alternative Funds Order Instruction Status Report

In addition to the data elements required for non-alternative funds, alternative funds instructions require functionality for:

- pre-payment/payment information,
- hold back,
- side pocket,
- top-up
- expected execution amount
- specific conditionally accepted, rejected, partially settled status reasons, such as hold back, below minimum initial investment amount.

Alternative Funds Accounting Statement of Holdings

This message is based on the ISO 20022 Accounting Statement of Holdings.

Functionality has been made specific for alternative funds by the:

- addition of balance types for side pockets, hold back,

- addition of side pocket, gross asset value (GAVL) and estimated gross asset value (EGAV) prices,
- addition of equalisation data elements,
- removal of elements not required for alternative funds, such as accrued interest and place of safekeeping and breakdown by place of safekeeping.

Investment Fund Order Cancellation Request

This message is used to request the cancellation of an investment funds order.

The existing ISO 20022 investment funds order cancellation functionality was implemented with very granular messages, eg, Subscription Order Cancellation Request, Subscription Bulk Order Cancellation Request, Redemption Order Cancellation Request, etc. This new Investment Fund Order Cancellation Request message is designed generically with the view that it will eventually replace the granular ISO 20022 order cancellation request messages.

There has been little or no implementation of the cancellation functionality of the existing mutual funds messages. This is because either cancellation is not allowed or because cancellation processing has not yet been the focus of automation. When mutual funds institutions do implement cancellation functionality there is no doubt that the implementation of a single cancellation message is more desirable than the implementation of five granular messages. The new generic investment funds order cancellation request (and the new generic investment fund cancellation advice as described below) will be promoted in favour of the granular and specific mutual funds cancellation messages.

This new investment fund order cancellation message can be used to request the cancellation of an alternative fund subscription order, alternative fund redemption order, subscription order, subscription bulk order, redemption order, redemption bulk order or switch order.

Investment Fund Cancellation Advice

This message is used by the account servicer to advise the cancellation of a previously sent investment funds order confirmation message or previously sent investment fund statement.

The existing ISO 20022 investment funds order confirmation cancellation and investment fund statement functionality was implemented with very granular messages, eg, Subscription Order Confirmation Cancellation Instruction, Subscription Bulk Order Confirmation Cancellation Instruction, Redemption Order Confirmation Cancellation Instruction, Accounting Statement of Holdings Cancellation, etc. This new Investment Fund Cancellation Advice message is designed generically with the view that it will eventually replace the granular ISO 20022 order confirmation cancellation and statement cancellation messages.

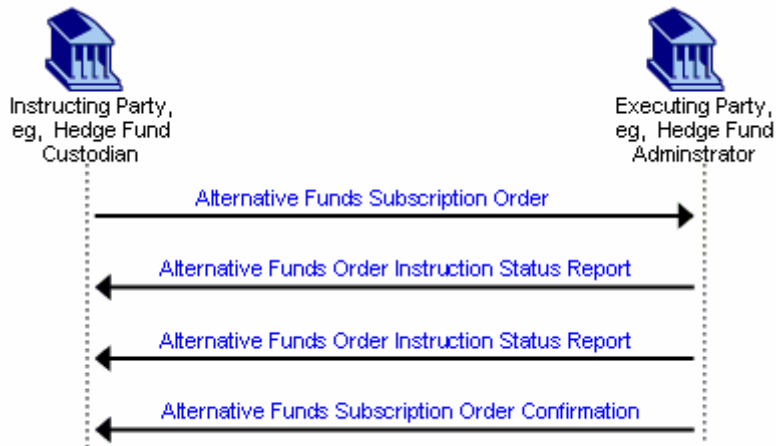
This new investment fund cancellation advice message, can be used to advise the cancellation of an alternative fund subscription order confirmation, alternative fund redemption order confirmation, alternative fund accounting statement of holdings, subscription order confirmation, subscription bulk order confirmation, redemption order

confirmation, redemption bulk order confirmation, switch order confirmation or an investment funds statement.

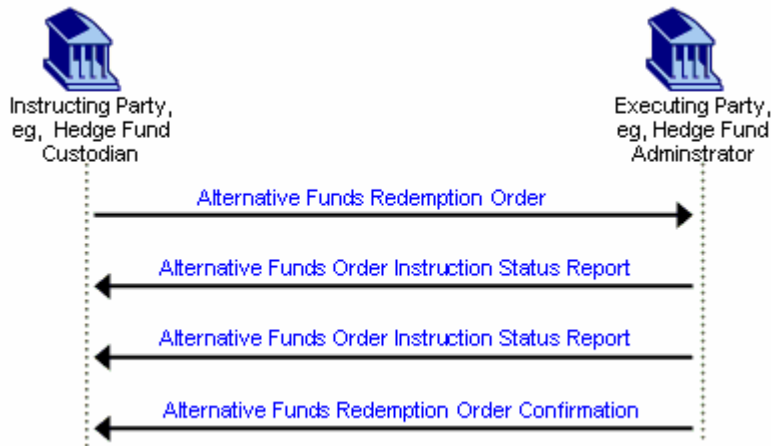
Example Message Flows:

Messages in blue are in scope of the business justification. Alternative Funds also uses some of the existing funds messages.

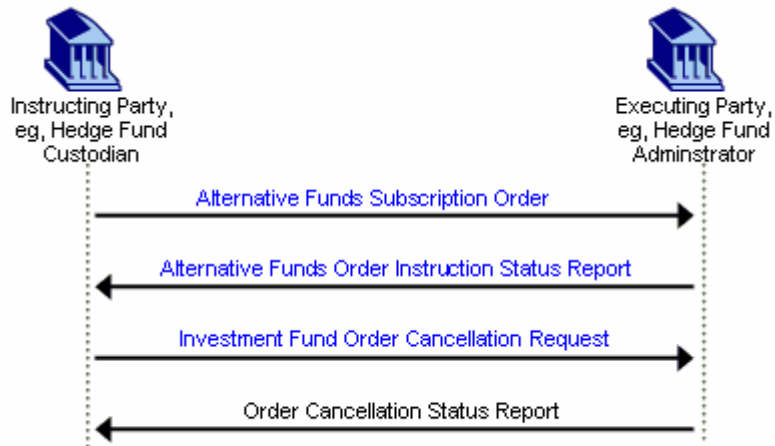
[a] subsequent subscription



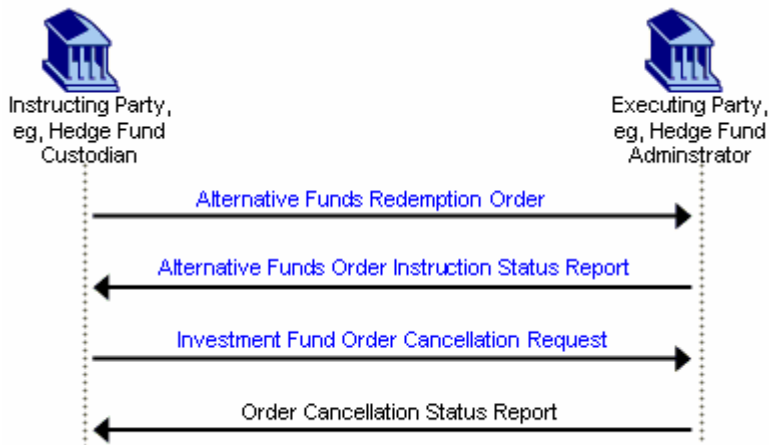
[b] redemption



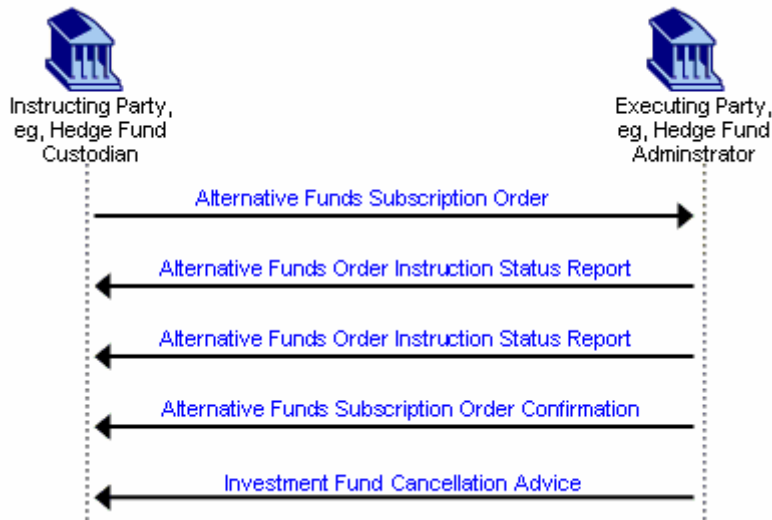
[c] subscription order cancellation



[c] redemption order cancellation



[d] order confirmation cancellation



[d] statement



Financial Instruments	Alternative funds such as non-unitized limited partnerships, Real Estate Investment Trusts (REITs), investment trusts, hedge funds and non-standardised investment products.
Business area	Securities Trade
Business Processes	Alternative Funds Order Process
Business area	Securities Management
Business Processes	Reconciliation

In view of the scope, we recommend that the Securities SEG be assigned the evaluation of the candidate UNIFI models and messages.

D. Purpose of the new development:

Today, communication between institutions involved in the alternative funds business is carried out predominantly by fax. PDFs via e-mail and file transfer, as well as the telephone also play a large part in this communication.

The purpose of the development is to address the recommendation from the alternative funds community that SWIFT develop specific messages to support the alternative funds business to encourage consistent implementation in a cross border environment.

The alternative funds messages compliments the existing set of ISO 20022 investment fund messages, by providing the possibility to transmit orders for alternative funds such as limited partnerships, REITs, investment trusts, hedge funds and other non-standardised investment products.

E. Community of users:

The community of impacted users are the professional players involved in the operational aspects of the alternative funds, including institutional investors representing themselves and high net worth individuals, custodians, global banks and private banks, ie, the 'investor intermediaries' or 'distributors', and alternative/hedge fund administrators / transfer agents, etc.

The targeted community consists of all the major alternative funds players.

Benefits to users

- Provide message standards that will foster the implementation of alternative funds, order processing processes that will result in an increase to straight through processing
- Reduce manual processes and therefore increase efficiency and reduce risks and costs.

As explained below, pilot institutions have already been identified.

F. Timing and development:

The objective is to have the alternative funds messages available on SWIFTNet for pilot use during Q4 2008. Following the pilot exercise, there will be a period foreseen for any necessary fine tuning, ie, a pilot maintenance. This would mean that the messages would be submitted to ISO 20022 towards the end of Q4 2009. This timing depends upon the pilot institutions themselves.

SWIFT has worked with the following groups in the defining the requirements:

- global alternative funds, hedge fund and fund of hedge funds custodians and administrators/transfer agents based in Dublin and Luxemburg. This represents the top nine companies in terms of assets under management,
- DTCC.

The alternative funds institutions that decided to be involved in the pilot are primarily drawn from those companies participating in the message requirements analysis. Private banks in Switzerland and the channel islands, and Japanese trust banks are also showing great interest in automating alternative funds.

G. Commitments of the submitting organization:

SWIFT confirms that it can and will:

- Undertake the development of the candidate UNIFI UML models that it will submit to the RA for compliance review and evaluation. The submission will include Business Process Diagram (activity diagram), Message Flow Diagram (sequence diagram), Message Definition Diagram (class diagram), and an example of a valid XML instance of each candidate message.
- Address any queries related to the description of the models and messages as published by the RA on the UNIFI website.

SWIFT is also committed to implement the messages, initiate and participate in the future message maintenance.

SWIFT confirms its knowledge and acceptance of the UNIFI Intellectual Property Rights 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 licence to use the published information”.

H. Contact persons:

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I. Comments received from RMG and disposition of comments:

Following comments received from RMG members are addressed below.

Comments from Germany:

We recognized that there is a strong redundancy between the BJ Alternative Funds and Funds-XML. Could you point out the main advantages of the BJ compared to Funds-XML?

Disposition of German comments:

The key advantages that the alternative funds message set has over the mutual funds message set is that the alternative funds messages are purpose built and will support alternative funds that are non-unitized, as well as provide additional functionality for characteristics such as side pocket, series, lots and hold-back.

Using the current mutual funds messages for the non-unitized instruments would require in-elegant work-arounds.

The Alternative Funds structure is much shorter and tailored to implementation for a complex product set. Due to the flexible nature of Alternatives Funds, this market also requires a rapid maintenance cycle that would not be acceptable to investment funds users.

When the current market driven maintenance freeze on the investment funds message set is lifted, it is anticipated that redundant functionality would be removed.

The separation of these instruments enables risk based regulation to be applied to support the differing regulatory structures of Alternative Investments and Investment funds.

Comments from Switzerland:

Submitter: Switzerland, Matthias Meier

Date: 14th August 2008

The Swiss community is very sceptical about this Business Justification.

As one of the major market players, more than 30 % of all funds invested in Alternative Funds are placed out of Switzerland, we have a special interest in developing standards to improve client satisfaction thanks to reliable, fast, user friendly information and automated processes.

We do not feel that requirements of the Swiss community is adequately considered in this BJ.

Our main issues are:

We can not see the added value of total new set of messages for Alternative Funds where the volume is relatively low and therefore we do not see a positive business case.

We prefer to re-use the existing MX / ISO20022 set for Investment Funds messages.

The objective shall be to provide only one set of MX messages, used for all kind of fund instruments (investment funds and alternative funds) including all types of messages for orders, status reports, confirmations, cancellations and accounting statements.

Additional information required for specific types of alternative funds shall be integrated in each message (order, order status report, order confirmation, order cancellation and accounting statement) by using additional optional sequences and data elements.

We are against introducing a new statement 'Alternative Funds Accounting Statement of Holdings' as proposed in the BJ. We should stop the development of Statement for each individual investment class. The clients prefer to receive one statement of holding or transaction report for all its investments regardless of the Classification of the Financial Instruments.

SWIFT should explore if for example the message CAMT 053.001.001 Bank to Customer Statement could be enhanced to cover the requirements of Alternative Funds.

For further questions please do not hesitate to contact us

Kind regards

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Disposition of Swiss comments:

The Swiss community comments have been incorporated where possible during the message design period and specific market practice sessions are scheduled in Zurich in September. Further refinement of the messages and market practice is anticipated to take place after the pilot period, and there will be a pilot maintenance.

We expect (end of Q4 2009) to submit to ISO 20022 messages that have been validated and implemented by the Swiss, Ireland, Luxembourg and US markets as the key industries.

With respect to the comment that the Swiss would prefer to re-use the existing investment funds MXs: whilst it is true that the existing MX message set can be used for 'simple' hedge funds, an in-depth gap analysis shows it is not possible to use the existing MXs for the full variety of alternative funds and the requirement for separate alternative funds messages is justified.

The approach of having generic messages to cover all investment funds could have been taken. However, this would have led to large generic messages, both difficult to understand and implement. There is already a perception that the mutual funds messages are too large and difficult and there is a move towards the concept of market targeted messages. The alternative funds community that are part of this set of alternative funds message pilot feel strongly that making generic messages is not the right approach, that the alternative funds messages should be separate and there should be a certain amount of autonomy permitted for the alternative funds community so that as the alternative funds industry changes the messages can rapidly evolve.

Due to the risk profile of alternative investments, the expected benefit of STP is expected to reduce the risk and support increasing volumes of alternative investments transactions.

Substantial analysis has been carried out on the existing requirements against the investment funds messages, the profile of expected users of the messages set, and willingness to change.

The main areas that influenced a decision for a clean / new implementation included:

1. Inclusion of non unitised products such as REIT, would decrease the validation effectiveness for investment funds users.
2. Treatment of equalisation – included, held or to be paid values.
3. Treatment of series funds and non standardised investment.
4. Inclusion of waiver conditions to allow continued negotiation between client and fund manager prior to the custodian to TA messaging elements.
5. Differing acceptance criteria in that a hedge fund order is not deemed accepted for execution prior to confirmation by the fund manager.
6. For pricing, hold back and mandatory side pocket confirmations, the structure of the messaging needs to support the flexible pricing nature of alternative investments. Standard investment funds validation of confirmation messages implemented on receiving systems would not be able to match a confirmation for alternative product based on the similar validation rules, for example, ISIN will be confirmed with series information, ordered amount may be split across main and side pocket instrument, redemption amounts may have portions that are heldback for standard release times.
7. The alternative funds industry is expected to evolve at a fast pace. Due to the differing market space and regulation profile, these instruments will have a shorter change request cycle that proves to be a challenge for traditional investment funds users.

The development of an alternative funds statement is seen somewhat as an interim measure and it anticipated that through market practice there will eventually be one generic statement covering all investment types and asset classes.

The new settlement & reconciliation message produced by the reverse engineering of the ISO 15022 MT535 messages is expected to incorporate all requirements in the future.

Comments from the UK:

- The term "alternative investments" is outmoded and is now commonly referred to as Collective Investment Vehicles ("CIV")
- The UK would like to see more convergence in the proposal between these CIVs and the current open ended unitized vehicle messages, known as "investment funds".

Disposition of UK comments:

The term 'alternative investments' is a global term to incorporate hedge funds, real estate investment trusts, non unitised products. It has been recommended by the US, European and Asian markets to represent the flexible product set that falls outside of the regulation of collective investment vehicles and UCIT products.

Substantial analysis has been carried out on the existing requirements against the Investment Funds message, profile of expected users of the messages set and willingness to change. To force convergence would lead to large generic message types that are impractical for either market to implement (see also the 'disposition of Swiss comments'.)