

BUSINESS JUSTIFICATION
FOR THE DEVELOPMENT OF NEW ISO 20022 FINANCIAL REPOSITORY ITEMS

A. Name of the request:

Securities Management Accounting Book-Entry Instruction

B. Submitting organisation:

ISITC
390 Amwell Road, Suite 402
Hillsborough, NJ 08844
USA

ISITC represents around 75 organisations from the buy-side, sell-side, global custodian, vendor and utility communities.

C. Scope of the new development:

The business justification will identify and describe, as far and precisely as possible, the financial instruments in scope and the ISO 20022 business area, business process, information flows, business transaction and message set to be created. It is understood that, in case of a new development, it may not be possible yet to describe all of the above mentioned items in complete detail. However, at least an estimate of the expected number of messages must be given.

Investment Managers instruct their account servicers to make a net payment/receipt to/from a custody account using existing standards. However, investment managers also send the related accounting information in a separate instruction.

The scope of this Business Justification addresses this latter process. ISITC proposes a solution to create a new ISO 20022 message which will allow an Investment Manager to send an accounting book-entry instruction relating to a cash movement to an account servicer. This new message will provide details on how to allocate for accounting purposes - by debit/credit amount and cash purpose – a net cash payment to /receipt from an external counterparty. This message will also allow an Investment Manager to provide additional accounting detail for a single book-entry.

This business process is primarily a function of fund accounting, and as such ISITC proposes that the resulting message belong to the **semt** ISO 20022 Business Area.

It is impossible to provide a precise estimate of the expected volumes, but as a rule of thumb ISITC expects the usage volume of this new message will be broadly comparable to the combined volumes of the MT202/210 sent by Investment Managers to Global Custodians.

Based on the scope, the submitting organisation must propose the Standards Evaluation Group(s) (SEG) that should be assigned the evaluation of the candidate ISO 20022 messages, once developed.

ISITC proposes that the Securities SEG be assigned to lead the evaluation of the candidate Fund Accounting semt message, with participation of the Payments SEG.

If the submitting organisation does not want to include the ISO 20022 Business Application Header (head.001.001.01) with the proposed messages, it must provide the reason why.

The ISO 20022 Business Application Header (head.001) will be included in this message.

This section must also indicate if the submitting organisation wants to deploy the future messages in a different syntax than the ISO 20022 XML syntax. By default, the ISO 20022 message models are used by the RA to generate and publish ISO 20022 XML messages. If the submitting organisation wants to use these models to generate messages in an alternative syntax instead of the ISO 20022 XML syntax or on top of the ISO 20022 XML syntax, it should be stated here with the indication of the alternative syntax of choice. Please note that the submitting organisation will have to demonstrate the compliance of these messages with the ISO 20022 message models approved by the SEG. Upon such demonstration, the resulting messages will be considered as “ISO 20022 compliant using a domain specific syntax”. For more information about alternative syntax submissions, please contact the RA at iso20022ra@iso20022.org.

There are no plans to develop or deploy the message in any syntax other than ISO 20022 XML.

D. Purpose of the new development:

The business justification will describe how the communication of information is happening today, existing message sets if any, current problems and how the proposed development is expected to improve this communication and bring benefits to the industry.

If the use of an alternative syntax to ISO 20022 XML has been requested in section C, the reason for such request should be detailed in this section, including the identification of the targeted community of users and the demonstration of their strong need and support for such alternative syntax.

In today's environment, Investment Managers typically use the MT202/210 to instruct an account servicer to make a net payment/receipt to/from a single custody account. The Investment manager must send the related accounting information in a separate instruction (e.g. fax, spreadsheet, e-mail, etc.) because there is no appropriate message standard available.

In future, the Investment Manager will send a payment initiation pacs.009, or a camt.057 notice to receive cash, to the account servicer instructing them to process an actual payment/receipt to/from an external counterparty. The purpose of the proposed message is to introduce a standard format and syntax for providing breakdown information and/or additional accounting detail related to a payment or receipt of funds, allowing both the investment manager and account servicer to automate the processing of the breakdown.

We believe this will lead to significant savings for the securities industry in terms of the reduction/elimination of manual processing, as well as the reduction/elimination of fails and interest claims. A precise estimate of said savings is not feasible. However, we believe that closing this gap in the coverage of message standards significantly enhances the value proposition for migration to ISO 20022.

E. Community of users and benefits:

This section is critical. It will be used by the RMG to determine the business case and priority of the proposed development. Even if the benefits of the project may have already

been described to some extent in the previous sections, submitting organisations are invited to repeat them here and to spend the time necessary to collect requested information for each of the captions below. If a caption cannot be completed, the submitting organisation is requested to explain why.

The justification will identify the categories of parties/actors that would use/benefit from the new message(s), and **for each category of users:**

1. **Benefits/savings:** *a full description of the benefits and, whenever possible, expected savings*

Investment Managers and Fund Administrators.

- Expected headcount savings. New message enables automation of a process which is performed manually by both parties today.
- Reduction in operational risk. Manual transmission no longer needs to be re-keyed into the accounting platform.

2. **Adoption scenario:** *the expected impact of adopting the new messages and the expected time frame; when there are (non ISO 20022) messages in use, the proposed migration pattern and timing;*

The securities industry has not yet set a date for mainstream adoption of ISO 20022. ISITC believes that closing this gap in the process enhances the value proposition for migration. ISITC anticipates that the new message would be implemented at the same time as the migration to the pacs.009 and camt.057 messages.

3. **Volumes:** *estimated/potential number of users and the estimated/expected number of messages; the targeted 'critical mass' and targeted timeframe, proposed by the submitting organisation, to gauge the success of the project.*

As noted above, the number of users and volumes of the new message are expected to be broadly similar to the current usage and combined volume of the MT202 and 210 sent by the IM community today. There is no timeframe for adoption of 20022 at this time. The success of this project is tied directly to the mainstream implementation of ISO 20022 by the securities industry.

4. **Sponsors and adopters:** *an indication of the probability of success of the proposed new message set in terms of adoption by the targeted category of users (name of institutions, communities or countries that are sponsoring the project and name of institutions, communities or countries that are committed to adopt the messages and in which timeframe).*

As noted above, to the extent that the US buy-side community and their Global Custodians agree upon an approach and a timeline for the adoption of ISO 20022 then the likelihood of success of the proposed new message is very high.

F. Timing and development:

The justification will describe:

- *the urgency of the development, and the expected consequences of a delay;*

As noted above, it is important to close this gap in standards coverage asap, otherwise ISITC believes that the mainstream adoption of ISO 20022 by the securities industry may be delayed.

- *the date (as precise as possible and at least the quarter) when the submitting organisation is planning to have the new candidate ISO 20022 business and message models developed and ready for submission to the RA;*

ISITC/SWIFT intend to submit the candidate message model for review in Q3 2011, in an attempt to get the message published and available for usage by the end of Q4 2011.

- *who will the submitting organisation (try to) involve in the development (standards organisation(s), industry groups, user representatives, vendor representatives, service providers, regulatory bodies, market infrastructures, etc.);*

As noted above, ISITC represents a significant majority of the US Investment Management community and ALL of the major US based Global Custodians. ISITC expects that these organisations will be involved in the development.

- *any other known standards initiative(s) involved in an effort to address the same requirements.*

ISITC is not aware of any other similar initiatives.

G. Commitments of the submitting organisation:

ISITC confirms that it will:

- work together with SWIFT to develop the candidate ISO 20022 business and message models that will be submitted to the RA for compliance review and evaluation.

The submission must include Business Process Diagram (activity diagram), Message Flow Diagram (sequence diagram) and Message Definition Diagram (class diagram), and, optionally, examples of valid and invalid XML instances of each candidate message and other descriptive material that will be used by the RA to generate the Message Definition Report;

- address any queries related to the description of the models and messages as published by the RA on the ISO 20022 website.

ISITC confirms that it will promptly inform the RA about any changes or more accurate information about the number of candidate messages and the timing of their submission to the RA.

ISITC confirms our intent to organize testing or the actual implementation of the messages once the related documentation has been published by the RA. The purpose is to ensure that the documentation of the messages is accurate and consistent and to verify that the approved messages can be implemented with no adverse effects on communication infrastructures and/or applications.

ISITC confirms that it is committed to initiate and/or participate in the future message maintenance.

ISITC confirms its knowledge and acceptance of the ISO 20022 Intellectual Property Rights policy for contributing organisations, 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:

ISITC identifies the following persons that can be contacted by the RA, RMG or SEG to get additional information on the project and/or its business justification.

Mr. Steve Goswell BlackRock (steve.goswell@blackrock.com)
Mr. Jason Brasile State Street (jason.brasile@statestreet.com)
Mr Peter Moon Omgeo, LLC (peter.moon@omgeo.com)
Ms. Teresa Aguiar Brown Brothers Harriman (teresa.aguiar@bbh.com)

I. Comments from the RMG members and relevant SEG(s) and disposition of comments by the submitting organisation:

This section will include the comments received from RMG members and the SEG(s), if any, and the response given to each of these comments by the submitting organisation.