

RESEARCH NOTES

The Case for Standardization in the Transmission of Cashflows

A Report By: Nicsa Technology & Innovation Committee

Committee Overview

The Nicsa Technology & Innovation Committee serves as a resource for the Nicsa community by providing access to information and education on technology issues related to the asset management industry. The Committee shares best practices and fosters innovative thinking within the fund community. Members comprise investment managers, service providers and technology companies.

1. Introduction

There is a need across the industry to standardize the Transfer Agency cash files sent to Middle Office (to record in the IBOR) and to Custodians, which would improve STP processing for these files. Currently there is a mish mash of file formats and delivery mechanisms that requires firms like Northern Trust, Bank of New York Mellon, State Street, Citibank, J.P. Morgan, Asset Managers and others to ingest TA cash sheets, reformat and normalize these into a format that can be recorded in the IBOR.

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2. Background

SWIFT has been adopted by over 11K institutions and 200 countries since the 1970s.

Since the 1970s, when banks collaborated to form a standard for transmitting cross border payment, SWIFT (Society for Worldwide Interbank Financial Telecommunication) has been the standard for secure financial transmissions around the world.

SWIFT has been adopted by more than 11,000 institutions around the world and is connected to more than 200 countries. SWIFT standards exist and are utilized for communication of payments, security transactions, FX, and Cash. SWIFT messages are routinely used by buy side firms, middle office providers, brokers, custodians and fund accountants to perform trade and FX notification, transaction confirmations and recording into accounting books of records. Moreover, SWIFT transactions are used in the vital reconciliation process between fund accountants, custodians and middle office providers.

Below is a common list of SWIFT transactions and their common uses:

Transaction Category	Most Common SWIFT Message Types
Trade Order Communication	MT502, MT509, MT51X
Tax and Corporate Actions	MT564, MT565
FX Transactions	MT54X, MT300
Back Office Reconciliations	MT535, MT940/950

Reference:

<https://docs.oracle.com/cd/E19509-01/820-7113/6nid5dl2r/index.html>

3. Problem Identification

However, there is not a widely adopted industry SWIFT standard for communicating daily cash flows.

So what's the issue?

The problem is that today, an all too common situation exists between mutual fund administrators and industry participants, whereby the mutual fund administrator notifies the third party via a transfer agency of cash flows in and out of that fund (ex. as a result of a mutual fund subscription or redemption).

Unfortunately, there is not a widely adopted industry SWIFT standard for communicating these daily cash flows. TAs will commonly send PDF reports, faxes or emails to advise of these flows, and the Middle Office recipients have to normalize and load these files so that transactions can be recorded into the investment book of record.

In addition, some cash flows are directed by the Custodian to the Middle Office provider including, but not limited to STIF, fees, subscriptions and redemptions.

These institutions have spent millions of dollars throwing technology at the problem, from screen scraping tools, OCR, natural language processing and machine learning, to complex ETL orchestrations using sophisticated tools such as Alteryx, Duco, Xceptor and others. Still others have thrown bodies at the problem by using offshore centers to process these transactions. Today, most of the larger institutions use a combination of automated and offshore

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solutions, causing a drain on the overall system.

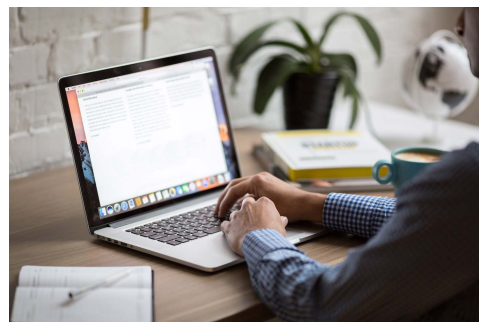
4. Seeking Solutions

The asset management industry is in need of widespread adoption of cashflow transmission standards.

Obviously the nirvana state would be for these transactions to flow STP, and to be reflected back into buy-side order management systems, so that traders can make investment decisions based on spendable cash. There are a number of methods already in use outside the US:

- MT940/950: a cash statement, however it can also be sent by some transfer agencies (particularly in EMEA).
- MT515: trade confirmation message, used as part of execution (MT502) and order acknowledgment (MT509). Most transfer agencies in EMEA handle execution via SWIFT as this is far more efficient.
- MT900/910: This is a confirmation of a credit/debit, several asset managers have made agreements with the sender (custodians) to include transaction type information in the narrative field which can be parsed systemically for posting.
- The next gen Swift messaging (ISO 20022) has the CAMT.054 message which is a very detailed version of the MT900/910

The best option might be transmission via FIX message, as this would benefit a broader segment of the industry. But in order to do this, the industry needs to adopt a common standard, and must press for widespread adoption of this standard.



"The industry needs to adopt a common standard for the transmission of cashflows from Transfer Agents to industry participants, and must press for widespread adoption of this standard."

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