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process commission calculations accurately and there is a risk that transactions and holdings may be allocated to the wrong distributor. As such, there is a need to apply a unique distributor identification code for all order transactions. When T2S goes live for investment fund settlement, multiple CSDs may hold omnibus accounts at the TA and it will be vital to have an effective system for marking transactions and for identifying distributors when transactions are processed through pooled accounts.

At this time, we see no clear market solution for this challenge. The Eurosystem has established a working group to promote shareholder transparency, but this has so far accorded limited attention to transparency concerns relating to investment funds and specifically to the challenges presented by commission calculations. The Association of the Luxembourg Fund Industry (ALFI) has taken up this issue with the ECB on behalf of the Luxembourg market and is awaiting further information regarding the steps that will be taken to address these concerns.

In the French market, a system for marking orders through BIC codes has been introduced to track beneficial owners for transactions that are settled through omnibus accounts at Euroclear France. However, further work is necessary in order to stand-

fund transactions via several business units within their organisation.

A second challenge relates specifically to investment fund companies which provide their own in-house TA for their fund range. Typically these companies have tended to use a global cash clearer to process international payments associated with fund execution and settlement. However, as non-banks they will not typically have an account at the CSD and, thus, an established avenue to support transaction settlement in central bank money (CeBM). Given that T2S will demand CeBM settlement of investment fund transactions, the ALFI Transfer Agency Working Group has been debating with the Eurosystem how best to establish a cost efficient mechanism for supporting CeBM settlement for these non-bank firms that provide their own TA services internally.

The ALFI TA Workstream conducted a meeting with the ECB several weeks ago, attended by approximately 40 participants for the TA community, with attendance also from TA representatives from the French and Irish markets.

DvP Settlement through LuxCSD

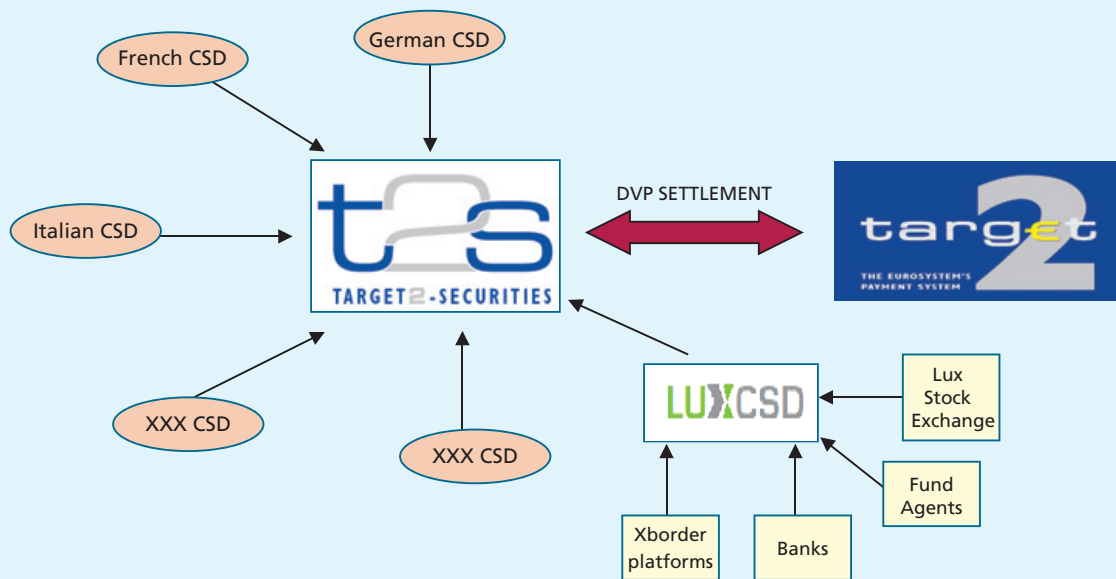
In the context of T2S implementation from 2014-5, Clearstream Banking has been working with Banque Centrale de Luxem-

Ultimately, it will be the distributor community that will guide the settlement model used to settle fund transactions. For those currently using the fund services offered by a CSD/ICSD, the option of drawing on the DvP settlement facility extended by LuxCSD may be an attractive option. However, fund distributors that do not currently settle via a CSD will need to adapt their settlement model in order to link with LuxCSD and this will take time and demand a change in their post-trade culture.

ardise the way that BIC codes are employed. Moreover, this system currently does not provide a failsafe solution: some distributors may not currently have BIC codes; and some large distributors may have a single BIC code for their organisation, but may process

bourg to establish a CSD for Luxembourg and to provide a domestic access to the T2S infrastructure to the Luxembourg community. Consultation has commenced with market participants in order to define the positioning of this new CSD as well as

LUXCSD in T2S : a gateway for settlement in central bank money



Source : Clearstream

its functional requirements. The depository services offered by LuxCSD will not be limited to investment funds, but will be extended to any eligible security. LuxCSD will offer services that are complementary to those offered today by CBL and other market actors.

When it goes live, LuxCSD will offer DvP settlement for investment funds in line with the model currently offered by Clearstream's Central Facility for Funds (CFF). However, it will not be mandatory to settle investment fund transactions through LuxCSD. Yveline Herfeld points out that, ultimately, it will be the distributor community that will guide the settlement model used to settle fund transactions. For those currently using the fund services offered by a CSD/ICSD, the option of drawing on the DvP settlement facility extended by LuxCSD may be an attractive option. However, fund distributors that do not currently settle via a CSD will need to adapt their settlement model in order to link with LuxCSD and this will take time and demand a change in their post-trade culture.

Herfeld notes that we have seen parallel examples in the UK market where some sections of the investment fund community have been relatively slow to embrace

the DvP settlement model offered by FundSettle. Many smaller distributors have remained lukewarm about the cost and operational challenges posed by the need to adapt to a new settlement model – and, as a result, some IFA firms and other non-bank distribution channels have been reluctant to avail of this facility.

As a TA specialist, Herfeld points out that CACEIS has long been able to offer the flexibility to support cross-border distribution via a range of processing models. "Consequently, we view the launch of a LuxCSD as complementary to the services that we currently provide," she explains.

Significantly, as the global economic crisis has unwound, some fund promoters have elected to review where they domicile their fund ranges. This has resulted in a gradual movement of offshore funds from the Caribbean and other domiciles to Europe, with Luxembourg and Ireland primary beneficiaries of this trend. "We anticipate that LuxCSD will be an important component of a robust and cost efficient risk management environment that may potentially encourage more fund promoters to re-domicile their funds to the Luxembourg market," she concludes. ■