



FINANCE & TECHNOLOGY RESEARCH CENTRE

Adviser Forum

Using industry fund codes to support adviser investment and advice processes – Good Practice Statement

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What is the issue being addressed?

- The sales process is changing and is becoming much more fund driven.
- The ability to pick a fund and demonstrate its performance is an important part of the advice process.
- Advisers need be able to review and report on client investments in a cost effective manner.
- Advisers who operate Client Management System (CMS) want to access fund information via these systems.
- Providers are capable of returning a valuation within a Contract Enquiry (CE) message to a CMS vendor. However, the CE message does not include investment data e.g. asset allocation, sector details etc.
- If Advisers cannot access information on the underlying investment funds electronically they are forced to revert to manual processes which are resource heavy and costly to run.
- Providers who are expensive to deal with are likely to be at a disadvantage over those who run more efficient process i.e. deliver the information advisers need in a format that imposes minimum cost on the consumer.
- CMS vendors have been looking at alternative ways of addressing the issue of retrieving investment data for advisers and this has resulted in the use of industry fund codes.
- Valuations are the area where fund codes currently are most used by advisers.

What is the issue being addressed? (continued)

- There are a number of reasons advisers will use/plan to use funds codes:
 1. To value assets that are not CE enabled e.g. legacy book;
 2. Allows daily price feed to be run;
 3. Allows storage and updates of other useful fund level information i.e. asset allocation, fund fact sheets, price history etc;
 4. Allows the user to produce fund level management reports e.g. assets contained in a particular fund;
 5. Allows the user to produce performance based reports.
- Where a Product Provider is deploying CE that includes external fund codes or, delivers fund codes mappings to support investment and pension contracts, then it is considered good market practice to ensure the practices outlined within this document are met.

Fund Code Good Practice Statement (Part 1)

Good practice statement for Providers who deliver fund information within a Contract Enquiry message

- Ensure that a CE message delivers the following underlying fund information such as:
 - Fund breakdown,
 - Name of fund
 - Number of units
 - Unit price
 - Unit price date
 - Unit type (accumulation / income) ⁽¹⁾
 - Value of units
 - Protected / Non-Protected Rights indicator ⁽²⁾
- Even where a Provider is delivering this information within a CE message, there is still a need to supply an industry fund code as users will want to pull down additional information such as fund performance data as this is not available within a CE message request.

Notes:

- (1) It is currently understood that an Origo message change request is being 'progressed' to try and facilitate identification down to the appropriate level.
- (2) It is understood that the Origo standard is capable of supporting protected rights and non-protected rights split at a fund level. Feedback however suggests that some providers may be delivering this information in a way that can make it difficult for the end user to identify the protected rights part of a pension when units are added or subtracted.

Fund Code Good Practice Statement (Part 2)

Good practice statement for Providers who supply fund codes within a Contract Enquiry message:

- At the very least Product Providers should supply at least one industry fund code though an optimal solution would support multiple fund codes i.e. Citi, MEX, ISIN, SEDOL and EPIC codes. ⁽¹⁾
- The use of some external fund codes may trigger a charge for advisers who store or use such codes within their CMS.
- It is recommended that providers check the issue of adviser charging liability with fund code suppliers and ensure advisers are made aware of any scenarios that may trigger a charge.
- Where a Provider is delivering an external fund code within a CE message it will not be necessary for them to include an internal fund code.
- Where an adviser is deploying a CMS solution the vendor is likely to have developed a mechanism that will use the industry fund code, imbedded with the CE message, to obtain the underlying fund details from a third party source i.e. A price feed supplier.

Notes

(1) The CE 'request message' currently only allows CMS vendors to request one fund code whilst the 'response message' is capable of supporting multiple codes. A change request may be required to allow CMS vendors to request more than one fund code.

Fund Code Good Practice Statement (Part 2 cont.)

- It should be noted that where such practices are in place, the Product Provider cannot be held responsible for the information that is returned from the third party. Also, advisers and CMS should ensure they have adequate processes in place to support this approach.
- Where a Product Provider offers the same fund (i.e. Operates the same underlying asset allocation and fund selection) at different prices (i.e. Different series of funds) they should seek to apply an external fund code for each of these.
- For some Providers there may be significant architectural issues that prevent them from supplying external fund codes for all series of funds offered.
- Current market practice is to buy a single fund code and apply it to a master fund (i.e. The first fund in the series) and advisers are then expected to manually link a single fund code to fund that operate the same underlying asset allocation.
- This process has been identified to be high risk as it means advisers could inadvertently select the wrong fund code and apply it to a client's investment which could result in inappropriate advice or recommendations being made.

Fund Code Good Practice Statement (Part 3)

Good practice statement for Providers who supply mappings of fund codes

- If Providers are unable to pass details of an industry fund code within a CE message then it is recommended they deliver a mapping of their internal codes and any external codes to a CMS vendor.
- If Providers opt to follow this approach then the following information should be supplied:
 - Fund name
 - Fund type (accumulation/income fund)
 - Industry fund code.
 - Their internal code supplied on the CE message
- This is considered an acceptable short term solution though the longer term strategy should be to embed an external fund code within the CE message.
- It should be recognised that there are risks associated with sending and receiving fund code data in spreadsheets as it does require some form of manual intervention i.e. Data input, data extract etc activities will rely upon individuals performing tasks.

Fund Code Good Practice Statement (Part 3 cont.)

- CMS vendors have expressed a desire that Providers adopt more robust mechanisms when transporting fund code data, namely to mitigate the concerns highlighted earlier.
- The CMS vendors engaged in the creation of this good practice note have identified a common approach that they would welcome the adoption of.
- See example approach to the right.
- This approach would be most suitable for providers who plan to continue delivering fund code data to CMS vendors separately.

Draft XML schema.

```
<?xml version="1.0" encoding="UTF-8" ?>
<fireq:fund_identification_request
xsi:schemaLocation="http://www.exchange.co.uk/schema/FundIdentificationRequest/v1
FundIdentificationRequestV1.xsd" xmlns:fireq="http://www.exchange.co.uk/schema/FundIdentificationRequest/v1"
xmlns:xsi="http://www.w3.org/2001/XMLSchema-instance">
  <fireq:control_data>
    <fireq:product_provider_name>The Product Provider</fireq:product_provider_name>
    <fireq:message_created_datetime>2001-12-17T09:30:47Z</fireq:message_created_datetime>
  </fireq:control_data>
  <fireq:fund_detail>
    <fireq:name>Fund 1 Name</fireq:name>
    <fireq:unit_type>Accumulation</fireq:unit_type>
    <fireq:fund_code fireq:code_type="SEDOL">value</fireq:fund_code>
    <fireq:fund_code fireq:code_type="Product Provider Specific">value</fireq:fund_code>
    <fireq:fund_code fireq:code_type="CITI">value</fireq:fund_code>
  </fireq:fund_detail>
  <fireq:fund_detail>
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    <fireq:unit_type>Income</fireq:unit_type>
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  </fireq:fund_detail>
</fireq:fund_identification_request>
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Current state assessment of market practices

	Providers	AEGON	Axa	Aviva	Canada Life	Clerical Medical	Friends Provident	Prudential	Scottish Life	Scottish Widows	Standard Life	Zurich
Solution type	Solution attributes											
Ideal	Hold external fund codes for all funds offered (including those with price variants)	No	No	Yes	Yes	Yes	No	Yes	Yes	Yes		Yes
Progressing towards ideal	Have plans underway to acquire external fund codes where they are not yet provided (including those with price variants).	No	No	N/A	N/A	N/A	No	N/A	N/A	N/A		N/A

Note 1: Solution does not extend to covering with profit funds.

	Providers	AEGON	Axa	Aviva	Canada Life	Clerical Medical	Friends Provident	Prudential	Scottish Life	Scottish Widows	Standard Life	Zurich
Solution type	Solution attributes											
Ideal	Have already upgraded Contract Enquiry messages to include internal and external fund code.	No	No	No	Yes	Yes	No	No	Yes	Yes		No
Progressing towards ideal	Have plans to upgrade Contract Enquiry messages to include internal and external fund code.	Under Review	Yes, 2011	Yes, 2010/early Q1 2011	N/A	N/A	No	Under Review	N/A	N/A		No

	Providers	AEGON	Axa	Aviva	Canada Life	Clerical Medical	Friends Provident	Prudential	Scottish Life	Scottish Widows	Standard Life	Zurich
Solution type	Solution attributes											
Tactical	Deliver fund code information to CMS vendors already in a non-XML format.	Yes	Yes	Yes	N/A	Yes	Unknown	Yes	N/A	Yes		Yes
Ideal	Plan to adopt XML schema suggested as a mechanism to deliver fund code data to CMS vendors	No	Potentially	No	N/A	Question long term feasibility	No	Question long term feasibility	N/A	Question long term feasibility		No

Information is outstanding.

How can firms use this information to their benefit?

- **Adviser firms:**

- If planning to implement a CE service from a provider, establish upfront their approach to delivering detailed underlying fund information.
- Use the good practice recommendations outlined on pages 5-9 to understand if the provider is adopting recommended market practices.

- **Client management systems:**

- Encourage clients to review this good practice statement and suggest they discuss this with providers they plan to implement CE with.

- **Product Providers:**

- Firms planning on making changes to how they approach/support fund codes should read this document.
- Firms are encouraged to adopt the market practices outlined in this document.

- F&TRC recommend that a further current state assessment of market practices is conducted in 6 months time to allow firms to understand how the market has moved on.