

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

**A. Name of the request:**

Transparency of Holdings

**B. Submitting organisation:**

Clearstream Banking S.A.  
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**C. Scope of the new development:**

This submission proposes the reverse engineering of an existing Clearstream message definition into ISO 20022, within the Securities Management (semt) business area. The message standard was first published by Clearstream in 2012 using the XML syntax. A number of banks and other financial institutions have implemented the message. Clearstream has continued to maintain this proprietary message since its initial release.

The development was undertaken in response to direct requests for a solution from Clearstream's customers. Furthermore, T2S working groups have been analysing the Transparency of Holding, as for example can be seen in slides 4-10 of this presentation: [http://www.ecb.europa.eu/paym/t2s/progress/pdf/extmtg/mtg24/ext\\_mtg24\\_item4\\_2.pdf](http://www.ecb.europa.eu/paym/t2s/progress/pdf/extmtg/mtg24/ext_mtg24_item4_2.pdf)

The product description and technical documentation for the current implementation is available here: [http://www.clearstream.com/ci/dispatch/en/kir/ci\\_nav/4\\_ifs/030\\_transparency](http://www.clearstream.com/ci/dispatch/en/kir/ci_nav/4_ifs/030_transparency)

It is proposed to develop two new message definitions:

- one new message definition for a transparency of holdings statement: to provide a combined view of multiple account servicers in a custody chain.
- this statement message will be complemented by a second message to provide a way for the report receiver to reply with the acceptance or rejection of the report.

This development is primarily intended for holdings of shares in investment funds, other domains are not excluded. Statements of holdings are prepared and sent "upstream" in the custody chain, from customers to their custodian, where the statements can be enriched with the custodian's own data, compiled with other inbound statements, split by place of safekeeping (or other grouping of financial instruments), and forwarded to the next designated "upstream" custodians. Ultimately, the reports arrive at the relevant "issuers" (e.g. fund companies, transfer agents). The enriched statements may also report on a given customer account, and be sent downstream in the custody chain, like a regular custody statement of holdings but with additional levels of account structures and the same customer data as is reported to the fund company/transfer agent.

It is envisaged to use the same message for both directions of reporting, and regardless of the level in the account structure (i.e. concentrations of holdings) that is being reported.

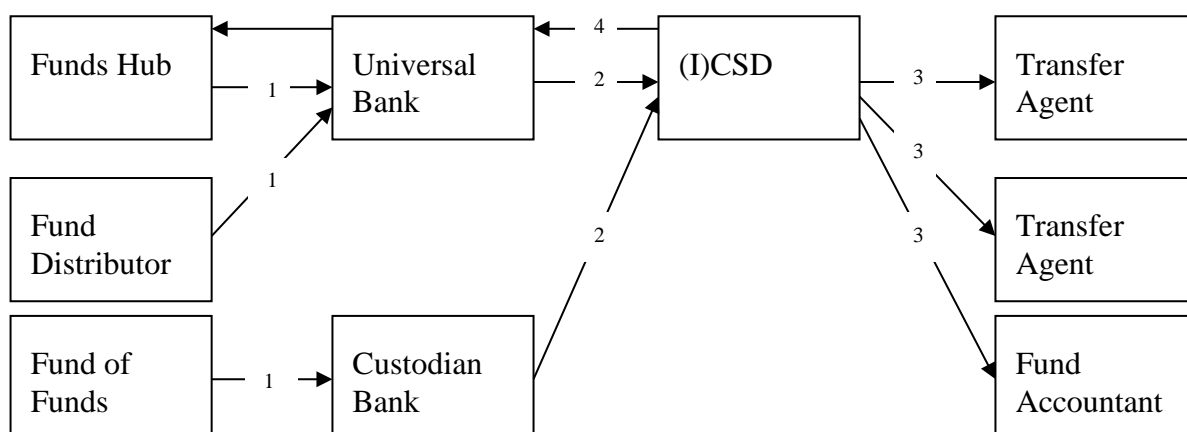


Figure 1, a chain of custodians

1. Investor-side companies use accounts in banks for the safekeeping of investment funds. If a company in the distribution chain has multiple commercial agreements with a fund company, they use the transparency of holdings statement to provide the bank with a break-down of the holdings.
2. Banks use nominee accounts in a CSD or ICSD for the safekeeping of investment funds. The transparency of holdings statement is used where a bank wishes to provide the (I)CSD with a break-down of assets held in omnibus.
3. The (I)CSD use nominee omnibus accounts in the respective registers of shareholders. The transparency of holdings statement provides the respective fund companies with break-downs of holdings of the (I)CSD customers as well as customers of the (I)CSD customers.
4. The (I)CSD and its customers use the transparency of holdings statement to provide their respective customers with the details that have been sent to the fund companies.
5. A recipient of a transparency of holdings statement may respond with a status message, to accept or reject (partial or whole) an inbound statement. This is not shown in the diagram.

It is considered that the two new messages shall use the [ISO 20022 Business Application Header](#) (BAH) without repeating header elements within the message.

The submitting organisation wants to deploy the future messages in the default ISO 20022 XML syntax only.

Proposed SEG: The standard is relevant to the ISO 20022 Securities / Funds domain. Based on the above scope, it is proposed that the Securities Standards Evaluation Group be assigned the evaluation of the Transparency of Holdings message definitions.

#### D. Purpose of the new development:

The investment funds markets are organised to increase the consolidation of holdings along the upstream transaction chain, with the highest concentration on the transfer agents' side. This allows custodians and distributors to optimise their operational efficiency and, in doing so, reduce asset servicing costs. At the same time, it becomes difficult for transfer agents to verify positions of individual market participants, with a decreasing visibility of holdings

downstream of the custody chain. Simply put, the economies of scale gained by the custody chains are working against the interests of transfer agents when they perform trailer fee calculations and similar processing.

Trailer fee claims and depository certificates are exchanged in a variety of ways and formats, e.g. regular mail, telefax and spreadsheet attachments to email. Fund distributors have to comply with a wide range of requirements from various transfer agents, whilst transfer agents receive reports from many sources and have to deal with difficult reconciliation and repair issues.

The transparency of holdings statement provides the solution by consolidating and enriching data provided by the fund distributors, sub-custodians and custodians, and then distributing the consolidated report to the relevant transfer agents. Simultaneously, the enriched information can be returned to the fund distributors, adding to the value of the service.

The SecuritiesBalanceCustodyReport semt.002 covers reporting from one custodian to its customer. The transparency of holdings statement combines reporting of several custodians in separate levels, and can be used for reporting in both directions between a custodian and its customer. There are existing similar status messages, but none of them can provide a status on a holding at multiple levels.

#### **E. Community of users and benefits:**

The community of users is mainly the funds industry, and following actors will be users of the message definitions:

- Fund distributors and some institutional investors, e.g. fund-of-funds asset managers, will send statements of holdings to their custodians when their safekeeping account is used by a group of sub-distributors or multiple funds-of-funds.
- Sub-custodians will send statements of holdings to their custodians, and so on, for example in a chain of CSDs participating in T2S, and ultimately send it to the relevant transfer agents/fund companies.
- Transfer agents and fund companies will receive standard statements from their directly connected custodian (i.e. those that hold omnibus accounts in the shareholder register). They will benefit by receiving a single statement per directly connected custodian, with all of the required details of the underlying holdings. The transparency of holdings allows them to verify the claims for commissions, rebates, etc., which are made by the underlying fund distributors and investors.
- Sub-custodians and custodians will receive standard statements from fund distributors, investors and other (sub-)custodians. They will benefit from being able to provide the transparency of holdings that many investment funds require, which in turn allows them to improve the asset servicing.
- Fund distributors and institutional investors will receive a verbatim copy of the relevant holdings data that their custodians have also sent upstream in the custody chain. This will aid them in making justifiable and verifiable claims at the transfer agent/fund company.

The transparency of holding report will have similar benefits for each of the above categories.

### 1. Benefits

The transparency of holdings statement improves the efficiency of safekeeping and marketing of investment funds. Senders benefit from having a standard, consolidated statement to send to only their custodian, regardless of the composition of their portfolios and how many transfer agents and fund companies are involved.

### 2. Adoption scenario

The transparency of holdings statement set of two messages provides the market players with a tool to build an infrastructure where there currently is a wide range of communication methods used, with many proprietary file formats and fax templates. As with any new infrastructure, adoption will take years rather than months. The huge gains in efficiency that a standard brings, and the “transparency dilemma” posed by T2S, will be major selling points for adoption of the two new ISO 20022 messages. A likely scenario is that transfer agents and fund companies will ask for the transparency of holdings statement from the custodians having omnibus register accounts, who in turn will demand the same from sub-custodians, and so on.

Clearstream is currently already using the XML standard report on its VestimaTRACK for the reporting of the Transparency of holdings. This message has been maintained already several times since its original release, and Clearstream will replace the proprietary messages with the implementation of the new ISO 20022 message as soon as the message has been ISO 20022 registered.

### 3. Volumes

Six months after the launch, one of Clearstream’s customers is providing statements of the break-down of two of their nominee accounts in the ICSD. They report on 400 lines of holdings distributed across more than 70 of their customer accounts.

The XML standard report is being sent on a monthly basis to four transfer agents (a further 25 Transfer Agents have opted for a simpler flat file report). The largest of these is 20MB in size and contains some 98,000 statements of holdings (in case of network restrictions, a pagination mechanism is foreseen in the ISO 20022 format).

The XML standard report is currently used to return an enriched statement to one of Clearstream’s customers, with two more soon to be active.

Clearstream has provided disclosure reporting to fund companies for over fifteen years, and the new XML standard is set to eventually replace two older reports that have a total of over 900 subscribers amongst transfer agents and fund companies.

In the wider context of offering solutions of disclosure through chains of technical issuer-CSDs in T2S, it is envisaged that usage of the new transparency of holdings statement will be mandated by many fund companies before they will support the issuance of fund shares for settlement in T2S. The volumes for this segment may become very significant.

#### 4. Sponsors/adopters

Clearstream will enforce the migration from the XML Standard report to the new ISO 20022 message on its system as indicated in the adoption scenario, during the next upcoming maintenance cycle. Through this migration the whole of the current existing community will migrate to the new ISO 20022 message.

#### F. Timing and development:

Clearstream expects to have the new candidate ISO 20022 business and message models developed and ready for submission to the RA by Q2 2014, with the support of SWIFT, based on the reengineering of the existing XML standard report which was originally developed with Clearstream users.

Thanks to the existing proprietary format XML standard report, Clearstream confirms it has already collected the required feedback from the users (e.g. transfer agents, fund companies, custodians, fund distributors and institutional investors), and this feedback will be taken on board in the ISO 20022 message definitions and will not require piloting of the new ISO 20022 message definitions.

#### G. Commitments of the submitting organisation:

Clearstream confirms that it can and will:

- undertake the development of the candidate ISO 20022 business and message models that it will submit to the RA for compliance review and evaluation. The submission will be compliant with the ISO 20022 Master Rules and include a draft Part 1 of the Message Definition Report (MDR) compliant with the template for MDR part 1 provided by the RA, the ISO 20022 Message Transport Mode (MTM) that the submitting organization recommends to consider with the submitted message set, but will not provide examples of instances of each candidate message;
- address any queries related to the description of the models and messages as published by the RA on the ISO 20022 website;
- 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.

Clearstream does not intend to organise the pilot testing for the new ISO 20022 message.

Clearstream confirms it is committed to undertake the future message maintenance and 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:

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## 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.*

### Comments from the CH on Transparency of Holdings BJ

#### General remarks

In general, the Swiss community supports the application scenario in the business justification. It is expected that, when the ISO 20022 messages of the business process proposed by this business justification become available, that they can be used by parties in the Swiss financial community.

#### Detailed remarks

1. Chapter C, 2<sup>nd</sup> sentence: “The message standard ...” In this sentence, the term ‘message standard’ is used for describing the current pre-ISO 20022 implementation of the business process. It is understood that the current business process is based on proprietary messages that are part of a proprietary service offering. Therefore, the term ‘message standard’ should, at this stage, be avoided. The submitter is encouraged to choose a more appropriate term, requesting the ISO 20022 RA for suggestions, if needed.
2. Chapter C, 4<sup>th</sup> paragraph, 1<sup>st</sup> sentence: “It is proposed ...” This sentence should be made clearer to express that a total of two new message definitions is proposed. In the current wording, only with the second sentence of the paragraph, the total number of messages becomes apparent.
3. Chapter C, page 2, paragraph starting “When defined by ...”: It should be clarified that the status message does not seem to be reflected in the diagram of figure 1. The submitter is encouraged to include the status message in the diagram or, alternatively, provide an additional diagram which reflects the status message.
4. Chapter C, page 2, paragraph starting “When defined by ...”: The submitter is encouraged to raise the aspect of such bilateral agreements with the Securities Market Practice Group (SMPG), in order that best practice recommendations can be developed for the status message, when employed to accept/reject (partially/wholly) an inbound statement.

5. Chapter C, paragraph starting “It is considered that ...”: The submitter should clarify that any elements of the ISO 20022 BAH that are deemed essential for the functioning of the business process are repeated, at least as optional elements, within the message proper. This is to ensure that the business process can be implemented by a network service provider that may not or not yet support the ISO 20022 BAH.
6. Chapter C, further details:
  - a. The submitter should clarify what depth of a custody chain the proposed business process and pertinent messages are intended for. Related to this aspect, the submitter should consider any requirements that a network service provider has to fulfil in order to support the pertinent messages that, depending on the depth of the custody chain, could become relatively large in size.
  - b. The submitter should clarify whether the business process is limited to (I)CSD holdings at Transfer Agents and/or Fund Accountants as depicted in the diagram of figure 1. In order that the business process can be employed in as many business contexts as possible, any restrictions related to the role of a party should be avoided.
  - c. The submitter should clarify what type of investment funds instruments the business process is intended to cater for and any known restrictions that there may be. In particular, it should be indicated whether the business process could be employed for the type of investment fund shares catered for by the ‘Alternative Funds’ business justification.
7. Chapter D, last paragraph: The submitter should clarify why it did not pursue the option to extend the existing SecuritiesBalanceCustodyReport in order to cater for the additional requirements of the transparency of holdings statement.
8. Chapter D, last paragraph: Likewise, the submitter should consider using existing ISO 20022 messages for accepting/rejecting the transparency of holdings statement message. If this were not deemed possible, the submitter should outline the reasoning that led to this conclusion.
9. Chapter E, “2. Adoption scenario”: The sentence ending “...for adoption of a new ISO 20022 message.” should be amended to refer to the business process, the reason being that the business process is proposed to encompass two ISO 20022 messages, as opposed to one ISO 20022 message referred to in this sentence.
10. Chapter F: As an outcome of launching this business justification, it may be that this business process is relevant to other communities that, so far, have not been included in the development and testing of the proprietary precursor of this business process. If that were the case, the submitter is encouraged to offer any members of such communities the opportunity to participate in the development and testing of the ISO 20022 business process in order to ensure that the business process and the pertinent ISO 20022 messages can be employed by all relevant communities.

**Disposition of CH comments by the submitting organisation:**

1. *Agreed to change any reference of “message standard” referring to the proprietary messages to “proprietary message”.*
2. *Agreed to rephrase the text as suggested.*
3. *Agreed to update the description of the diagram to add a point 5. The status message is an optional message.*
4. *Agreed, clause about bilateral agreement has been removed in the text.*

5. *Rejected: although not mandated, the Securities SEG expressed its preference for the usage of the BAH for all securities messages, and therefore we are following this recommendation and we propose not to duplicate the BAH elements in the body of the messages. This is also in line with the definition of the latest version of the SecuritiesBalanceCustodyReportV06 (semt.002.001.06) and SecuritiesBalanceAccountingReportV06 (semt.003.001.06) messages where the elements have been removed and the BAH is mandatory.*
6. *Chapter C, further details:*
  - a. *Based on the Clearstream experience and the current reengineered message, 10 levels in the custody chain are deemed sufficient. The actual level of details will be discussed during the development of the message, after approval of the Business Justification.*
  - b. *Clearstream original intent is to use the message in the context of Funds and (I)CSD, the scope of the message could be extended to others domains. Clearstream will not restrict the use of the messages to Funds only, but the BJ will only cover the specific scenarios as supported by Clearstream today.*
  - c. *Same as for previous comment b).*
7. *From a business point of view the two messages cover a different business scope and do not follow the same message flows as already indicated in the BJ (the message can be used for reporting in both directions between a custodian and its customers as well as the concatenation of multiple levels)*
8. *Agreed – sentence added for clarification.*
9. *Agreed, text has been adjusted to state that there are two messages*
10. *The purpose of the business justification is to reengineer the existing Clearstream message in a first stage. Should the scope be extended to other domains, specific requirements would be implemented whenever possible in the first version, but any major changes would be considered in subsequent versions of the messages.*

### **Comments from the Securities SEG on Transparency of Holdings BJ**

The Securities SEG agrees that there is a clear gap in ISO 20022 messaging for disclosure functionality, and has no hesitation in supporting this Business Justification.

While the SEG understands that the specific requirements to be addressed by the submitter remain in the Investment Funds domain, the document makes specific reference to this usage of the message, although it is equally suitable for equities and other instrument types. We would hope that the document could be reworded to reflect a more generic usage of the message.

The SEG would like to draw the submitter's attention to some work done by the SMPG in the past on possible disclosure flows. The draft documentation can be made available to the submitter, and we would encourage the submitter to take this into account where relevant.

### **Disposition of Securities SEG comments by the submitting organisations:**

*Clearstream original intent is to use the message in the context of Funds and (I)CSD, the scope of the message could be extended to others domains. Clearstream will not restrict*



*the use of the messages to Funds only, but the BJ will only cover the specific scenarios as supported by Clearstream today.*

### **Comments from the ECB on Transparency of Holdings BJ**

As ISO20022 RMG and Securities SEG member, the T2S programme was communicated the Clearstream Business Justification for the creation of Iso20022 (semt) message for Transparency of Holdings.

Notwithstanding the relevance of this Business Justification, the T2S programme would be grateful that you slightly amend it before its submission to vote.

As a matter of fact in this BJ one can read:

Clearstream was further encouraged to take the initiative by T2S working groups, such as can be seen in slides 4-10 of this presentation:

[http://www.ecb.europa.eu/paym/t2s/progress/pdf/extmtg/mtg24/ext\\_mtg24\\_item4\\_2.pdf](http://www.ecb.europa.eu/paym/t2s/progress/pdf/extmtg/mtg24/ext_mtg24_item4_2.pdf)

We just would like to clarify that no T2S working group has decided to encourage any action on shareholder transparency.

Some time ago the T2S Advisory Group Task Force on Cross-border Shareholder Transparency produced a report to the AG but no decision and no further action was undertaken by the AG or any other T2S group...

Consequently we thank you in advance for removing from this BJ reference to the decision of any T2S working group to encourage this Clearstream initiative...

### **Disposition of ECB comments by the submitting organisations:**

*Sentence will be reworded to avoid any misinterpretation.*