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27 February 2009

To companies and trade associations
participating in the European domestic
and cross-border investment fund industry

Dear Colleagues,

**Initial report and request for comments
Dematerialised mutual fund sales agreements and associated commission processing**

In the summer of 2006 several companies started to discuss a new concept for creating fund sales agreements. Their idea was that the negotiation process should be simpler and faster, and that the back-office processing of commissions should be more accurate and more efficient. At the end of 2008 those companies – BlackRock, BNP Paribas, Brown Brothers Harriman, DWS, Franklin Templeton, Fund-F, JPMorgan, Schroders and UBS – completed an initial report on their ideas.

The purpose of this letter is to make that report available to you and to request comments that might help the industry to develop the concept for the common good. This letter briefly explains the concept and the basis of this consultation.

The concept and its objectives

Mutual fund sales agreements and the associated commission processing activities are some of the less efficient aspects of the mutual fund industry. Agreements are very often customised legal documents, which take time to prepare and are expensive. Standardisation is uncommon except insofar as large financial groups insist that agreements must be on their own terms. The transposition of agreements into the back office and the commission calculation and payment process is inefficient and a source of operational and financial risk. It is a commonly-held view that industry practice is so fragmented that there is little prospect of improvement.

The aim of this project is to develop a way to improve how the industry creates sales agreements and how it processes the associated commissions. It proposes a legal framework within which fund sales agreements may be made, and a technical framework in which their commercial terms may be defined.

The legal framework proposes the concept of a generally accepted model fund sales agreement. Similar concepts exist elsewhere in the financial industry. A model fund sales agreement could be used in the fund industry for the same reasons that models have been adopted elsewhere: they satisfy most or all of the firms' legal requirements and it is easier to reach agreement on amendments to a commonly accepted model than it is to amend one or the other party's proprietary agreement.

The technical framework defines the commercial term sheet that firms would append to their legal terms. These commercial parameters are capable of being put into an agreement database by a sales assistant in the front office or a commission officer in the back office. In effect, the term sheet is transformed from a legal document into an operational document with legal foundation. It can be produced quickly, cheaply, and very accurately. It can be printed and signed if the parties to the agreement wish to keep physical records or it can be exchanged using electronic messages over a trusted network such as SWIFT. If electronic messages are exchanged on the basis of an unmodified model agreement, there should be no need to print anything and firms will have made their agreement in "dematerialised" form. The term sheet makes it possible for companies to reconcile holdings, report and pay commissions and maintain

distribution networks much more easily than today. It also makes it possible to document and apply changes in commercial terms without delay once they have been agreed.

It is very important to understand that the aim of the project is not to restrict the commercial freedom with which companies buy and sell mutual funds. The legal and technical frameworks are designed to be flexible, so that companies can use and if necessary modify them with no loss of freedom or competitive advantage.

Status of the project

Although the project has been running for more than two years and the initial report is extensive, it remains the product of an informal collaboration, which is in the early stages of its development. For 2009 the project has defined a more formal programme, mainly because the work has reached the limit at which informal collaboration is productive. As more organisations express an interest in participating in the project, future success will also depend on clear objectives, co-ordination of resources and effective communication on progress. The concept is not yet at the point at which it can be used in production and it has not yet been endorsed by any company.

Purpose and conduct of the consultation

The purpose of this consultation is to seek **industry opinion** on the concept in general and on the details of the legal and technical frameworks in particular. The project is very much a work-in-progress, and the consultation therefore seeks **recommendations for change** that will improve the likelihood of wide industry acceptance. We have not prepared specific consultation questions on each section of the report except insofar as there are some technical questions within Part 6 (the detailed specification for commercial terms). Feedback from preliminary briefing sessions shows that the report encourages many questions about the concept. Whether it is in the form of opinions, recommendations for change, or questions, all feedback is welcome.

The terms of the consultation are described in the table on the next page. The project has recently established a Web site at www.dmfsa.info and a discussion forum at www.swiftcommunity.net/dmfsa. With time, both sites will accumulate more information about the project, including its plans and working documents.

As the project leader, I would like to thank the companies and individuals who helped to develop this concept in the last two years. Many of them have continued to do so in 2009, and I hope that they will be joined by new contributors from the many firms that have expressed an interest in the project during the past two months. I am very much aware that this is an extraordinary time for our industry, and that the contributors are often committed to exceptional projects within their own firms. Even if it is on a limited basis, all participation is welcome.

Yours sincerely,

Noel Fessey

Schroders' Global Head of Fund Services

Key information about the consultation

Participants

We seek comments from participants in the European domestic and cross-border fund industry, including the following:

- Asset managers.
- Fund distributors, including retail banks and fund platforms.
- Private wealth managers and independent financial advisors.
- Financial infrastructure firms, including messaging and order routing firms, clearing banks and CSDs.
- Professional service firms including securities service firms, commission calculation agents, financial technology firms, law and audit firms.
- Industry associations.

Time

27 February 2009: Initial report and request for comment published.

17 April 2009: Closing date for comments to be considered in the first stage of the consultation.

8 May 2009: Working group assessment of comments and initial report.

Comments are welcome at any time after the closing date, and will still be considered by the project.

Language

The project's working language is English, and we would prefer comments in English.

We will use our best effort to consider comments that are made in other European languages.

Form of feedback

We invite participants to submit comments electronically through one of the following routes:

Email: feedback@dmfsa.info

Forum: www.swiftcommunity.net/dmfsa

We would be grateful if you would provide your name and contact details when you post a comment. We will publish comments on the project Web site (www.dmfsa.info) and on the forum named above. If you would like us to withhold your name or keep your comment private, please inform us and we will respect your request.

Scope of comments

We welcome comments that address the entire scope of the concept or only a small part of it. We particularly welcome ongoing discussion through the project forum.

Join the project

Organisations and individuals who wish to contribute to the project can do so through the forum and by applying to become a member of one of the design or consultation teams.

The forum is at <https://www.swiftcommunity.net/dmfsa>

To become a member of a design or consultation team, please send an e-mail to feedback@dmfsa.info

With acknowledgment and thanks to Fund-F for hosting www.dmfsa.info and SWIFT for hosting the DMFSA forum.