

Squaring the circle: How Fundsquare puts the focus on users



OLIVIER PORTENSEIGNE

In 2010, the Luxembourg Stock Exchange brought a number of industry players together to form a super-user group with the aim of creating a market infrastructure provider. That came to fruition in June 2013, when Fundsquare was born. The company, a separate legal entity which is fully owned by the stock exchange, is working with its clients to tackle some of the difficult challenges faced by the industry during a time of extraordinary regulation-led change. Olivier Portenseigne, chief commercial officer at Fundsquare, tells ISS about what the company is doing and what's in store for the future.

ISS: You began operations last July with the goal of becoming a global infrastructure that facilitates cross-border fund distribution between all stakeholders. How has the launch gone and what would you say have been some of the important milestones?

Olivier: The launch has gone well, so that's the good news. We have a growing number of asset managers and distributors that are connecting to the infrastructure for the service that we launched on the first of July, which is order management. We are processing now a couple of thousand trades per month and we are doing well according to plan, so we may be well in advance by the end of the year.

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The process of client integration has clearly demonstrated the value of what Fundsquare is bringing to the industry in terms of automation and standardization, combining at the same time better risk management and operational efficiency whether it is for manual transactions or for already-automated transactions.

ISS: You've emphasised the importance of collecting and transmitting information in a cost-effective way. What have you done to make this possible?

Olivier: When we created Fundsquare, we also integrated Finesti, which provided the infrastructure for the Luxembourg fund industry and other players to transmit regulatory reporting to the local authorities.

Our services are now collecting and disseminating all types of fund information. Whether it's asset managers pushing information to their distributors or data handlers. We remove the complexity of gathering data and documents across multiple sources and ensure the synchronization and quality. It's a very expensive process for many asset managers, and if you do it wrong it may hurt your brand. Managers need to publish static data, NAVs or documents in an accurate and timely manner to the press, the data vendors, or directly to their distributors. We developed a new tool to help asset managers do that effectively. That's where we see a lot of success on our side, and more specifically

through white labeling of the data or documents we gather onto their websites.

Similarly, we recognized that self-service functionality was very important as well. Asset managers or distributors connect to the website, and basically determine what data and documents they want to send and to whom, or what they want to receive. It's a multi-channel, multi-format, multi-frequency tool that we developed. That definitely helped asset managers to better disseminate data and reduce costs in terms of client support and data maintenance. Self-service was really important.

Data management is clearly getting a lot of attention from all asset managers as the regulatory pressure on the point of sale is increasing.

ISS: You've also spoken about the use of state-of-the-art technology. In this regard you've partnered with two groups, SWIFT and Altus. Tell us about what that brings to Fundsquare and its prospective clients.

Olivier: These two partners brought us credibility through their state-of-the-art technology. They built the infrastructure for us, which brings the scalability, the credibility, the trust and the neutrality that was necessary for us to be considered as a market utility. And if you add that our shareholder is the Luxembourg Stock Exchange, it brings the assurance to our

partners and clients that we are very scalable but also neutral versus all the solutions that exist on the market.

ISS: As a subsidiary of the Luxembourg Stock Exchange and being in the heart of one of the most important asset management locations in the world, are there any specific advantages you feel you provide for the industry?

Olivier: Luxembourg is the leading market for cross-border distribution and the second largest fund market in the world. It exposes us to global actors. And these same actors have made enormous efforts in recent years to streamline processes and increase efficiency in order to cope with a cross-border distribution model in increasingly distant countries. However, the industry still has further to go in terms of efficiency and that can be expensive to achieve. Plus, the benefits are less apparent for each fund supply chain participant. Fundsquare, as a market infrastructure, can enable that process by mutualizing the costs of investment.

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ISS: AIFMD has been a focus and you recently facilitated a passport request under the new directive. As we approach the end of the transition period, how do you think the new rules are working and what do you think the implications are for the industry?

Olivier: This goes for Luxembourg and other markets. AIFMD is a huge opportunity as it enables cross-border marketing of alternative funds to professional investors. We are now in the implementation phase for asset managers. They are very much focused

on the reporting they will need to do with regulators, which is not an easy process. We have developed a set of tools that will help not only to transmit that reporting to various local regulators -- whether they're in Luxembourg or other locations -- but also help them to passport their funds more efficiently, similarly to what we have done under the Ucits regime.

Another element of the directive is linked to investor information disclosure. Here also we are developing tools to help them to disseminate information efficiently while respecting the need for confidentiality concerning data or documents. We see more and more interest in this area and we're working out with market participants how it can be achieved.

ISS: You had a super-user group that was involved in the transition to becoming an independent entity. How has that influenced the nature of how you're operating?

Olivier: The whole model of Fundsquare has been designed under a market utility model with the purpose of facilitating cross-border distribution of funds. That means we build only solutions for and by the market. We reach out to users to understand their future needs, and plan and develop according to their requirements. The objective is to be user-owned and user-governed. Medium term, we will open the capital to our users, so that we provide an even greater opportunity to them to provide input on the governance and strategic direction of the company.

ISS: Finally, looking ahead, what are the priorities?

Olivier: One of our main areas of focus is to create further value on our order management capabilities. We are developing other services and by early next year we will introduce a cash settlement facility. That will then definitely allow fund buyers to consider us as a one-stop-shop for transaction processing while getting at the same time the necessary fund information they need. Also, we are continuously strengthening our offering for data and document dissemination. All these enhancements and developments are performed in the same spirit: to be a market utility aiming at mutualizing redundant activities and facilitating cross-border distribution.

Regulatory changes bring opportunities to redefine the way the market is organized. Solvency II is the perfect example whereby complexity could be removed by introducing a market utility simplifying communication and reporting between asset managers and insurance companies as opposed to bespoke individual models.

Indeed, the fund industry is facing a lot of challenges. Even if we are reaching records in terms of assets under management, which is great news, one of the things that is worrying is that there are very few long-term investments, apart from what we are doing on our side at Fundsquare. Many people are looking for short-term returns on investments in everything they do, which could hurt the industry in the long run.

In parallel, in continental Europe, public retirement schemes will slowly be replaced by private investments for future retirement. Of course, investment funds want to be the investment vehicle of choice for the savings of the younger generation, for their future retirement. So there is still a lot of potential in Europe especially if you compare the level of investment into funds between Europe and the US.

As a consequence, the investment funds industry in Europe needs to significantly reduce the cost of how it is organized if it wants to achieve these goals of being the primary investment vehicle of choice. If you look at the US, they implemented decades ago a fund data reference database that is freely accessible to everybody. On top of that, they also benefit from a market infrastructure for order routing, cash settlement and reporting. I think Europe needs this kind of infrastructure, and we hope we'll crystallize this need as we gradually grow.

