



Position Paper on the Commission Regulation (EU) N° 231/2013 Of 19 December 2012

Treatment of subscription and redemption orders under AIFMD

The main objectives of this ALFI Position Paper is to outline ALFI's recommendations by way of providing Best Market Practice Guidelines on the treatment of subscription and redemption orders. This document contains the ALFI TASC Regulatory Working Group's (serving under the ALFI TA & Distribution Forum) assessment of the current market practice across a representation of Luxembourg fund industry participants from the perspective of global cross-border fund servicing of Luxembourg-domiciled funds.

This document is not meant to impose an industry standard but is a guide to best market practice to comply with Commission Regulation (EU) N° 231/2013, Article 65 on Recording of subscription and redemption orders and, Article 26 on Reporting of subscription and redemption orders. This document has not been validated by any regulator. It does not diminish the management company's, the Asset Manager and/or the third party asset servicing (specifically in this instance, the registrar and Transfer Agent) provider's responsibility to comply with the EU Regulation on the treatment of subscription and redemption orders under AIFMD.

Some organizations may have different views based on their own assessment of the Commission Regulation (EU) N° 231/2013 Of 19 December 2012 in respect of Article 26 and Article 65. This ALFI Position Paper does not aim at imposing these recommendations.

1. Context

The context of this ALFI Position Paper and Best Market Practice Guidelines primarily refers to the duties related to the **Registrar and Transfer Agent (PSF category (24G))**. Registrar and Transfer Agents ("TA") constitute the sole category of PFS which are considered as "investment firms", thus benefiting from the European passport for offering services in other EU states. These agents are professionals, the activities of which consist of receiving and executing orders on financial instruments (units/shares of UCIs for example). The executing of orders is understood to include register keeping. Registrar and transfer agent status also allow such entities to offer all services comprising the concept of UCI central administration, including NAV calculation and the sending of information to investors.

One of the main functions of the TA in sending of information to investors, is the reporting of the execution of transaction orders. The standard market practice of the fund industry as a whole of reporting transaction orders to investors is the delivery of a "Contract Note" or Confirmation (i.e., notice and confirmation as referred to in Article 26, paragraph 1).

For the purpose of this paper, we will refer to the Contract Note in that it is the process and means by which we confirm that a fund transaction order has been executed. This is a standard market practice today. The Contract Note serves as a confirmation of the agreement between the investor of the Fund in respect of the execution of fund transactions, as requested by the investor. As depicted in Appendix 3, the Contract Note confirms the execution of a said order to the underlying investor with information that is standard market practice today. These information requirements are mostly listed in Article 26 and Article 65, however, some additional information is now required under the AIFMD regime.



2. Commission Regulation (EU) N° 231/2013

Article 65 – Recording of subscription and redemption orders

This article sets out the requirement for a AIF Management Company to record certain information in relation to subscriptions and redemptions.

1. AIFMs shall take all reasonable steps to ensure that received AIF subscriptions and, where relevant, redemption orders are recorded without undue delay after receipt of any such order.
2. That record shall included information on the following:
 - a) the relevant AIF;
 - b) the person giving or transmitting the order;
 - c) the person receiving the order;
 - d) the date and time of the order;
 - e) the terms and means of payment;
 - f) the type of the order;
 - g) the date of the execution of the order;
 - h) the number of units or shares or equivalent amounts subscribed or redeemed;
 - i) the subscription or, where relevant, redemption price for each unit or share or, where relevant, the amount of capital committed and paid;
 - j) the total subscription or redemption value of the units or shares;
 - k) the gross value of the order including charges for subscription or net amount after charges for redemption.

Article 26 – Reporting obligations in respect of execution of subscription and redemption order

This article sets out the information that should be displayed on the Contract Note issued to investors following execution of the orders. The exact wording of the text is as follows:

- “
1. Where AIFMs have carried out a subscription or, where relevant, a redemption order from an investor, they shall promptly provide the investor, by means of a durable medium, with the essential information concerning the execution of that order or the acceptance of the subscription offer, as the case may be.
 2. Paragraph 1 shall not apply where a third person is required to provide the investor with a confirmation concerning the execution of the order and where the confirmation contains the essential information. AIFMs shall ensure that the third person complies with its obligations.
 3. The essential information referred to in paragraphs 1 and 2 shall include the following information:
 - a) the identification of the AIFM;
 - b) the identification of the investor;
 - c) the date and time of receipt of the order;
 - d) the date of execution;
 - e) the identification of the AIF;
 - f) the gross value of the order including charges for subscription or the net amount after charges for redemptions;
 4. AIFMs shall supply the investor, upon request, with information about the status of the order or the acceptance of the subscription offer, or both as the case may be.



3. Luxembourg best market practice assessment and proposed approach to recording and reporting of subscription and redemption orders

The market practice assessment performed by the ALFI TASC Regulatory WG canvassed the WG's respective members organisations' reporting to investors, in reviewing the process and the media and the delivery of Contract Note information provided in line with identifying a best market practice which would fulfil the reporting obligations of Article 26 and Article 65, as described above, specifically how Luxembourg-domiciled AIF and/or their third-party service providers may demonstrate compliance with these requirements.

4. ALFI TASC Regulatory WG - Best Market Practice Guidelines

The following Best Market Practice Guidelines and the samples of Contract Notes provided are to serve industry participants with guidance in relation to each respective article of Commission Regulation (EU) N° 231/2013 Of 19 December 2012 on the recording and reporting obligations of subscription and redemption orders under the AIFMD regime.



Appendix 2

ALFI TA REGULATORY WORKING GROUP Best Market Practice Guidelines Treatment of subscription and redemption orders under AIFMD



EU Commission Regulation No 231/2013: Article 26 – Reporting obligations in respect of execution of subscription and redemption orders

Information required	Mandatory	Media	Understanding of the information	Market practice pre-AIFMD	Current/Proposed best market practice
<p>1. Where AIFMs have carried out a subscription or, where relevant, a redemption order from an investor, they shall promptly provide the investor, by means of a durable medium, with the essential information concerning the execution of that order or the acceptance of the subscription offer, as the case may be.</p>	YES	All	Transaction confirmation – Medium and delivery of the Contract Note to the investor	YES Audited activity	<p>One of the main duties of the TA in sending of information to investors is the reporting of the execution of transaction orders. The standard market practice of the fund industry as a whole of reporting transaction orders to investors is the delivery of a “Contract Note” or Confirmation.</p> <p>For the purpose of this paper, we will refer to the Contract Note that is the process and means by which we confirm that a fund order has been executed. This is a standard market practice today.</p> <p>The Contract Note thus serves as a confirmation of the agreement between the investor of the AIF in respect of the execution of AIF transactions, as requested by the investor. The Contract Note confirms the execution of a said order to the underlying investor with information that is standard market practice today.</p>
<p>2. Paragraph 1 shall not apply where a third person is required to provide the investor with a confirmation concerning the execution of the order and where the confirmation contains the essential information.</p> <p>AIFMs shall ensure that the third person complies with its obligations.</p>	YES	All	When the transaction order is going through an intermediary, the AIFM must ensure such intermediary is delivering a Contract Note to the investor	NO	<p>The AIFM will have to ensure all intermediaries will comply with this requirement.</p> <p>This can be fulfilled in two phases :</p> <ul style="list-style-type: none"> • Before the AIF becomes AIFMD compliant, the AIFM will have to review its book of business to identify the intermediaries instructing on the AIF, and implement agreements with such intermediaries to ensure compliance with this requirement. • Once the AIF is AIFMD compliant, the AIF’s application form shall include a provision in the intermediary section by which the intermediary will provide Contract Notes to the investors. Only intermediaries signing this new application form will be able to instruct on the AIF.



EU Commission Regulation No 231/2013: Article 26 – Reporting obligations in respect of execution of subscription and redemption orders

Information required	Mandatory	Media	Understanding of the information	Market practice pre-AIFMD	Current/Proposed best market practice
<p>3. The essential information referred to in paragraphs 1 and 2 shall include the following information</p>					
<p>a) the identification of the AIFM;</p>	<p>YES</p>	<p>All</p>	<p>Full legal name of the AIFM</p>	<p>NO</p>	<p>In general, the AIFM name, as such, does not appear on contract note. Usually, only the name of the AIF or Sub AIF/Share class.</p> <p>The AIFM name should be incorporated on Contract Note where the AIFM carries out an order. It should be the legal full name of the AIFM</p> <p>If an entity other than the AIFM carries out the order, the contract note does not have to include the AIFM name, unless the AIFM instructs the service provider to do so.</p>
<p>b) the identification of the investor;</p>	<p>YES</p>	<p>All</p>	<p>The name of the registered holder / unitholder as designated in the AIF's register</p>	<p>YES Audited activity</p>	<p>The account name, account number and/or designation is displayed on the Contract Note.</p>



EU Commission Regulation No 231/2013: Article 26 – Reporting obligations in respect of execution of subscription and redemption orders

Information required	Mandatory	Media	Understanding of the information	Market practice Pre-AIFMD	Current/Proposed best market practice
<p>c) the date and time of receipt of the order;</p>	<p>YES</p>	<p>Fax, email, courier</p>	<p>The date and time of receipt of the order</p>	<p>NO Audited activity</p>	<p>Orders are processed in accordance with the AIF Prospectus outlining the applicable cut off time for receipt of orders into the fund.</p> <p>As typically described in a AIF prospectus, the issuance of a contract note constitutes as a confirmation that the order was deemed to have been received before the dealing cut off applicable to the date of execution displayed on the contract note.</p> <p>Should an investor wish to query the date and time of receipt of a said order, the AIF and /or third party TA is able to confirm this information upon request.</p> <p>The contact details should be made available on the contract note. As per standard market practice, the date and time of receipt is recorded by the transfer agent upon receipt and also displayed in the transfer agency system, thus, this is in accordance with the AIFMD notice.</p>
<p>d) the date of execution;</p>	<p>YES</p>	<p>All</p>	<p>The trade date</p>	<p>YES Audited activity</p>	<p>The date of execution is incorporated and displayed on the contract note and is equivalent to the trade date.</p>
<p>e) the identification of the AIF;</p>	<p>YES</p>	<p>All</p>	<p>The AIF name and/or the ISIN code</p>	<p>YES Audited activity</p>	<p>The AIF name and/or ISIN code is incorporated in the Contract Note</p>
<p>f) the gross value of the order including charges for subscription or the net amount after charges for redemptions;</p>	<p>YES</p>	<p>All</p>	<p>The gross amount subscribed or redeemed including commissions/charges and the net amount after deduction of commissions/charges</p>	<p>NO</p>	<p>The gross amount including commissions/charges (front end load or back end load) should be displayed on Contract Note together with the net amount after deduction of all commissions and charges.</p>



EU Commission Regulation No 231/2013: Article 26 - Reporting obligations in respect of execution of subscription and redemption order

Information required	Mandatory	Media	Understanding of the information	Market practice Pre-AIFMD	Current/Proposed best market practice
<p>4. AIFMs shall supply the investor, upon request, with information about the status of the order or the acceptance of the subscription offer, or both as the case may be.</p>	<p>YES</p>	<p>All</p>	<p>The investor is able to have information about its transactions upon request</p>	<p>YES</p>	<p>The AIF's application form and prospectus contain contact information that can be used by the investor to instruct its transaction or to collect information about their transactions.</p>



EU Commission Regulation No 231/2013: Article 65 – Recording of subscription and redemption orders

Information Required	Mandatory	Understanding of the item	Market practice pre- AIFMD	Current/Proposed Best Market Practice
a) AIFMs shall take all reasonable steps to ensure that received AIF subscriptions and, where relevant, redemption orders are recorded without undue delay after receipt of any such order.	YES	Recording immediately any order received	YES audited activity	As per standard market practice of the processing of transactions, a transfer agent determines the appropriate time that is necessary time to record the orders considering volumes of orders, method of receipt (electronic or paper) and cut off time, as applicable for each AIF that they administer. The Transfer Agent ensures that all orders to be processed are held securely and processed on time. All orders are recorded within Transfer Agency applications i.e., the TA system.
2. That record shall include information on the following:				
a) the relevant AIF;	YES	The name of the Alternative Investment Fund	YES Audited activity	Orders when recorded are applied to the relevant AIF
b) the person giving or transmitting the order;	YES	The investor and order giver name	YES Audited activity	The information that is recorded in the TA system corresponding to <i>the person giving or transmitting the order</i> is described in the application form of the AIF. The application form comprises a beneficiary section, and in some instances an intermediary section: <ul style="list-style-type: none"> - the name identified in the beneficiary section is the beneficial owner, usually the investor name - the name identified in the intermediary section is the registered holder / unitholder, a duly authorised intermediary acting on behalf of the investor Those records are held in the TA system and shareholder register and copies of the order kept, be it manual or electronic. All orders received are maintained as instructed. As a consequence the name of the order giver is available through the TA system or investor file.



EU Commission Regulation No 231/2013: Article 65 – Recording of subscription and redemption orders

Information Required	Mandatory	Understanding of the item	Market practice pre-AIFMD	Current/Proposed Best Market Practice
<p>c) the person receiving the order;</p>	<p>YES</p>	<p>The person receiving the order at the Transfer Agent</p>	<p>YES Audited activity</p>	<p>For orders that are received in a paper form, it is standard market practice within the TA function that an audit trail is maintained in each step of the order being manipulated throughout the order process, from receipt, to processing to quality controls. Therefore, a received order is stamped by an administrator at each step, whether it is done via an imaging system or on paper, passed physically from one administrator to another.</p> <p>The TA system stores the User Id of the person recording the order and of any other person modifying the order recorded for the purpose of audit trail.</p>
<p>d) the date and time of the order;</p>	<p>YES</p>	<p>The date and time of receipt of the order at the Transfer Agent</p>	<p>YES Audited activity</p>	<p>The Transfer Agent already records this information in the TA system as part of the transaction process and the details are also stored as well depending on how the order has been received:</p> <ul style="list-style-type: none"> - date and time stamped on the order by the fax machine when received via fax (and information carried over electronically for instance in an imaging/workflow processing environment), - date and time stamped at the time of receipt of paper orders received via post
<p>e) the terms and means of payment;</p>	<p>YES</p>	<p>The payment instructions of the investor and of the AIF</p>	<p>YES Audited activity</p>	<p>Payment instructions of the AIF are available through the prospectus or AIF application form. These instructions are often stored in the TA system at the AIF level.</p> <p>Payment instructions and means of payment from the investors are recorded through the AIF application form duly completed and signed by the investor. This information is typically stored in the TA system's fund register.</p>



EU Commission Regulation No 231/2013: Article 65 – Recording of subscription and redemption orders

Information Required	Mandatory	Understanding of the item	Market practice pre-AIFMD	Current/Proposed Best Market Practice
f) the type of order;	YES	Subscription, redemption, switch, transfer, ...	YES Audited activity	The Transfer Agent is recording this information when encoding the order in the TA system.
g) The date of execution of the order;	YES	The trade date	YES Audited activity	The trade date is recorded once the order has been entered according to the date and time of receipt of the order versus the cut off time applicable to the AIF.
h) The number of units or shares or equivalent amounts subscribed or redeemed;	YES	The number of units/shares subscribed or redeemed, or the amount of capital committed and paid	YES Audited activity	The number of units or shares are recorded upon receipt, in the TA system if the order has been placed in units or shares by the investor otherwise the number of units/shares are calculated once the NAV has been received if the order has been placed in cash amount. When the AIF does not issue units or shares, the amount of capital placed or withdrawn from the AIF is recorded in the TA system.
i) the subscription or, where relevant, redemption price for each unit or share or, where relevant, the amount of capital committed and paid;	YES	The price used for calculating number of shares/units subscribed or redeemed or the value of the investors capital	YES Audited activity	This information is recorded in the TA system at the time of the execution of the order once the NAV per share or profit/loss allocation has been received. The price used to calculate the shares subscribed or redeemed is not necessarily the NAV per share.
j) The total subscription or redemption value of the units or shares;	YES	The cash amount/value subscribed or redeemed corresponding to the number of shares/units subscribed or redeemed	YES Audited activity	The value of units or shares are recorded right away in the TA system if the order has been placed in cash amounts by the investor otherwise the cash amounts are calculated once the NAV has been received if the order has been placed in shares/units.
k) The gross value of the order including charges for subscription or net amount after charges for redemption;	YES	The net amount, commissions and gross value of the order	YES Audited activity	This information is recorded in the TA system at the time of the execution of the order once the NAV per share has been received.



Appendix 3

Sample Contract Note

Service Provider Logo

Service Provider Address

123, Provider's Street, City
PostCode COUNTRY

CONTRACT NOTE

Registered Address

INVESTOR
123, Rue du Château
L-1234 LUXEMBOURG
LUXEMBOURG

Fund ID FUND_ABCD
Holder ID 000123456
Account ID 987654000
Contract No 0918273645
Date 09/Aug/2013
Email investor@home.com
FAX Number +352 0000 0000

Dear Investor,

We are pleased to confirm your transaction in AIF Fund Ltd Class B Series 2013-09. The final transaction details follow :

Order ID	178281601
Order type	Subscription
Valuation / NAV Date	31/Jul/2013
Trade Date	02/Aug/2013
Value/Cash Date	01/Aug/2013
Number of Shares	15,500.0000
Price Per Share	USD 100.0000
Gross Amount	USD 1,550,000.00

Note : 2013-08-01-08.51.07.644020 REF: 23-24447825

Any discrepancy should be notified to the Administrator within 48 hours from the date of this letter. If you have any questions, please do not hesitate to contact your Account Manager.

Kind regards,

SERVICE PROVIDER FUND SERVICES

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