FAC: Transformational Opportunity

FundAdminChain (FAC) is leading the digital transformation of the investment fund value chain.

**Transformational Industry Opportunity**

* The Funds Industry is rife with duplicate processing and reconciliations, as intermediaries and service providers are unable to take the financial and reputational risk that another participants’ recordkeeping is incorrect.
* The associated costs are very high and increasingly a strategic threat to the industry. Leading voices agree[[1]](#footnote-1) that distributed ledger technology (DLT) can enable significant cost savings across an industry managing $100 trillion in investor’s assets.
* It is clear that that there are multiple billions of dollars to be saved globally if the cost and speed of funds trading and settlements could be reduced to that of listed securities; this is just the beginning of the funds value chain evolution. Potential savings in UK market alone is est. $3.75bn in intermediary and service provider fees per annum reducing cost from $4.5bn to $0.75bn.
* A DLT based solution will streamline the recordkeeping for intermediaries (i.e. distributors, investment platforms and wealth managers), service providers (transfer agents and reporting utilities) and fund managers. At present, all these participants are engaged in their own recordkeeping of transactions. DLT will enable the elimination of duplicate recordkeeping and reconciliations to third parties. Further benefits include real-time settlement of fund transactions, important removal of servicing risks, and results in radically simplified and standardised processes.
* New and innovative fund products and investing services are being proposed by fund managers in response to the demand from new waves of investors seeking cost-efficiency and flexibility. However, these pioneering fund managers find it difficult to operate funds with digital-driven features on the aging rails of the conventional investment funds industry. Once again, DLT is regularly being promoted as the foundation that could enable a more equitable fee model for distributing such fund products.
* Yet, despite it being well documented that there is convoluted, dated funds market infrastructure that could be overhauled through DLT, there is inertia across the industry. This may be because:
  + Many participants in the value chain would lose significant revenues;
  + Fund Managers envisage the change to be too complex, requiring collaboration across an entire industry, involving multiple regulatory regimes, and believe other parties should take the lead and provide a better service; Or
  + A focus on shorter term gains and rather than focusing on what is a C-level, strategic consideration for the buy-side.

**Introducing FAC**

FAC have taken the initiative to design and build the industry solution to shake the industry out of this inertia. We are ensuring that the scale and scope of the opportunity is communicated, validated, and that Fund Managers take an active role in revolutionising their costs base and digitalising their products.

At a high level, FAC are tokenising fund share and currency onto a private permissioned FAC network. This provides a primary representation of assets, cash, and fund transactions within the FAC network, as cash and fund holdings are fully digitalised. This creates a network wherein participants transact with each other digitally, issuing and trading funds in a way that shares the same information on ownership and transactions. This reduces elongated settlement and fund clearing time cycles, enabling immediacy of accurate data and builds the foundations for the delivery of new digital channels and lower cost digital investment products. The first step is to launch FAC DLT-native funds followed by tokenisation of off-ledger funds through our in-built asset exchange.

**FAC have the capability, drive, and momentum to succeed with this transformation**

* Leadership team brings with them a track record of overseeing the strategic direction and delivery of complex collaborative programs within the financial markets. In addition, we have the blend of Funds and DLT expertise and the market connections required to design and deliver a network solution.
* FAC is not a pure software play, it is a market play backed by R3 ([www.r3.com](http://www.r3.com/)), the world’s largest blockchain focused collaboration with over 40 banks and leading financial organisations investing in R3. FAC follows a proven consortium model whereby we are creating massive value as opposed to focusing on immediate revenue.
* This enabled us to design and execute a plan to attract all parties, in a specific order of engagement, to participate in the multi-dimensional collaborative programme of work required to move from concept through design, build, test, and deployment and in parallel assemble a future state commercial construct that is attractive for all market participants.
* From its outset, FAC has engaged appropriate regulators early in development to ensure support and compliance. FAC received the backing of the FCA and associated industry bodies (Investment Association and the Depository Association), with FAC being accepted into the [FCA Regulatory Sandbox](https://www.fca.org.uk/firms/innovation/regulatory-sandbox) to frame a 2020 pilot and secure the launch of a digital fund from a regulatory perspective.
* FAC has garnered deep engagement within the Fund Management community with over 10 Fund Managers having formed the FAC Strategic Advisory Group including Aberdeen Standard, Aegon, Alliance Bernstein, Columbia Threadneedle, DB, Fidelity International, HSBC AM, Legal & General, M&G, Legg Mason and UBS.
* After 2 years of product design and build, FAC completed a successful PoC with Royal Bank of Canada in Q419-Q12020 of the FAC network and product (covers direct issuance and tokenising of off-ledger funds).
* FAC is gaining momentum and its traction real. It recently received the following:
  + Commitment by a leading Fund Manager to launch a real fund with real money in 2020.
  + Commitment by the Strategic Advisory Group to run a parallel simulation launch of digital funds.
  + Commitment by 2 Global Custodians to join the pilot and service the FAC launched funds.
  + Requests from major Distributors to join the FAC network (on hold until pilot begins).
* FAC’s commercial model justifies a business case for all parties to drive forward toward production. Our financial model ensures margins increase, even although revenues decrease for Fund market participants.
* Strong progress with additional market participants providing key roles to operate the FAC network, including providers of fund services (such as RBC), financial market infrastructure, and clouds services
* FAC are selecting an established market infrastructure partner to share in the massive upside potential. Our partner must be a proven entity with mature infrastructure, including contracts and vendor management relationships already in place.

**Service Provider Opportunity**

FAC is currently in discussions with multiple fund market participants on the new service provider roles available on the FAC network and would **welcome further discussions with forward-thinking organisations**.

* Transfer Agency 2.0 (TA2.0) – while the TA will still operate the fund’s share register and issue and redeem shares on behalf of a fund, all transactions and settlements are tokenised on the network and synchronised in real-time between funds and investors. As a result, TA2.0 is more focused on client servicing and a fund’s regulatory compliance towards investors, rather than operational processing.
* Digital Investor Custodian – providing key management services to secure investors’ access to the network and digitally sign transactions on the investor’s behalf.
* Digital Fund Custodian – providing key management services to secure a fund’s access to the network, enabling the issuance (‘minting’) and redemption (‘burning’) of fund tokens, and digitally signing transactions on the fund’s behalf.
* Cash Exchange – providing a facility for the receipt and remittance of fiat cash from investors and funds at the entry point to the network (with related AML controls), the related conversion of fiat cash to cash tokens and vice-versa (‘minting’ and ‘burning’) and the ongoing tracking of cash token balances vs fiat cash on deposit for each participant.

1. Accenture - [Capital Markets Vision 2022](https://www.accenture.com/_acnmedia/pdf-94/accenture-capital-markets-vision-2022.pdf) & Deloitte – [Impact of Blockchain on Fund Distribution](https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/technology/lu_impact-blockchain-fund-distribution.pdf) [↑](#footnote-ref-1)