

# Clearstream

## Vestima – Investor Money Regulation (IMR)

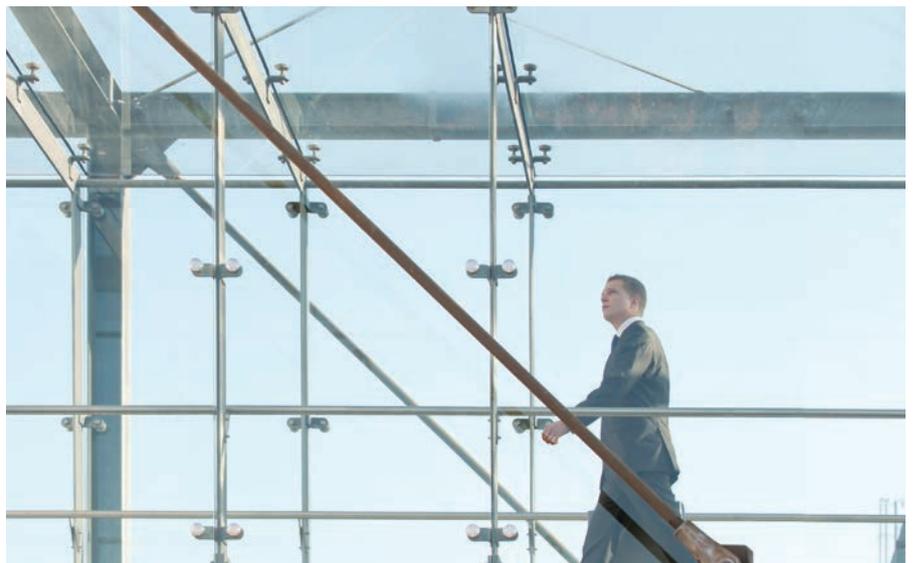
Service information

### Supporting transfer agents in Ireland in meeting the IMR challenge

#### Key benefits

- Secure Delivery versus Payment (DVP) settlement
- Assets held in a Fund Issuance Account (FIA) are out of scope of IMR
- The fund depository has access to the FIA or related reporting to satisfy AIFMD and UCITS V requirements
- Segregation of FIAs by fund /umbrella not required

The Irish Investor Money Regulation (IMR) aims to protect investors' money held by an Irish fund service provider in a collection account for both subscriptions and redemptions. The transfer agents in Ireland who operate collection accounts in their own name for the funds they service are the fund service providers most impacted by IMR. In the framework of Clearstream's settlement system, Vestima's Fund Issuance Account (FIA) model helps address this challenge.



#### Impact of IMR

The money held in a collection account flowing into a fund (i.e. subscription money) and out of a fund (i.e. redemption and distribution money) falls under the scope of the regulation. As a result, transfer agents in Ireland who operate collection accounts in their own name for these flows will be subject to the new rules.

Any cash received before the currency cut-off point on dealing day is deemed to be investor money and any cash received after that point will be considered a fund asset. At the cut-off point, the cash should be removed from the collection account in line with the fund service provider's contractual commitment to pay those proceeds to an account owned by the fund. In most cases, this would be the fund's cash account at the depository or subject to its oversight.

# Clearstream's fund processing model

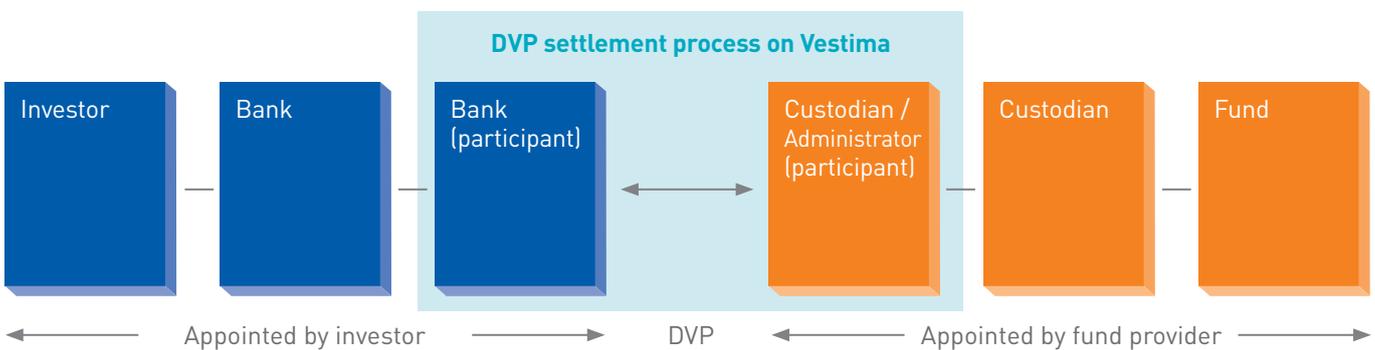
Clearstream's Vestima platform provides order routing, settlement and custody services to investment funds and their service providers.

As part of its centralised settlement facility, Vestima provides a fund issuance account (FIA) to fund service providers such as depositories and transfer agents through which subscription and redemption monies are settled.

participant representing the investor side of the transaction and the account of the Clearstream participant representing the fund side of the transaction.

Clearstream's secured transaction model is based on a DVP process that swaps cash against securities between the account of the Clearstream

Clearstream's Vestima provides a transaction point and facilitates settlement between the cash/securities processing chain appointed by the investor and the one appointed by the fund, as illustrated below.



Cash held in the FIA in relation to a subscription or redemption transaction belongs to the fund and is thus clearly out of scope of IMR.

The investor tends to be a bank distributing the fund to a given market. On the fund side, the FIA is usually opened in the name of the depository/custodian, although in Ireland it is often owned and operated by the transfer agent.

This will be done on settlement date, after the shares have been issued. This means that, when the cash reaches the FIA, the investor has already received the shares and the cash therefore belongs to the fund.

In the subscription process, the cash will be transferred to the FIA on a DVP basis, so against the delivery of the fund shares to the investor's account.

In the redemption scenario, the same logic applies: the redemption money credited to the FIA remains the property of the fund until exchanged on a DVP basis for the investor's shares.



# Fund assets and related oversight duties



As the assets held in the FIA belong to the fund (i.e. are fund assets), the FIA should be excluded from the IMR framework. However, it will still fall under the fund's depositary oversight duties prescribed by the AIFMD and UCITS V regulations.

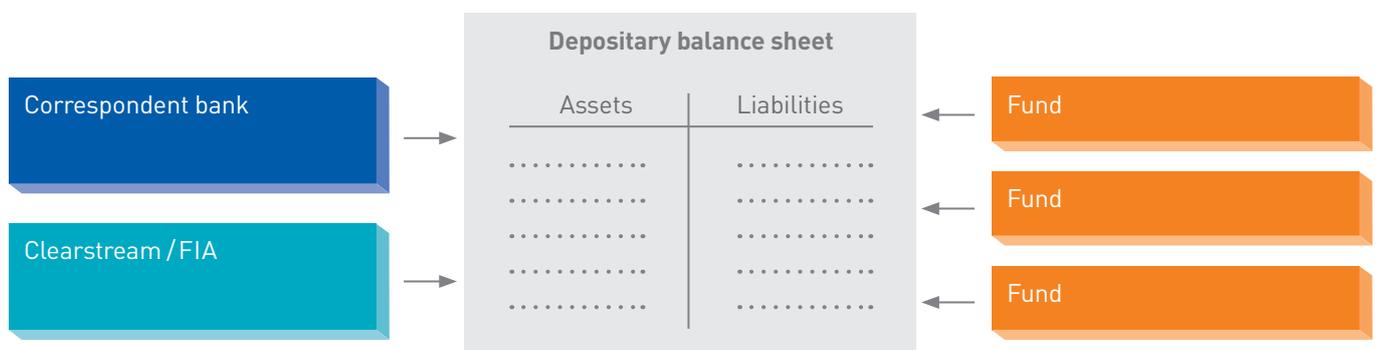
Clearstream recommends two options to organise such an oversight:

### 1. Open the FIA in the name of the transfer or settlement agent

In this case, an oversight process must be established between the holder of the FIA and the fund's depositary with sufficiently detailed reporting to satisfy AIFMD and UCITS V requirements. Clearstream can facilitate this by allowing the transfer agent (or settlement agent) to provide the depositary with access to the FIA or related reporting. Clearstream's view is that the FIA would not need to be segregated by fund or umbrella.

### 2. Open the FIA in the name of the depositary bank of the fund

In this case, the FIA becomes the simple, direct equivalent of a cash correspondent account for the depositary bank. Through the DVP settlement instructions and their link to the specific subscription and redemption orders, the depositary bank is able to credit or debit the fund account as a direct counterparty to the entries of its nostro account representing the Clearstream FIA. This process is streamlined and safe. As the FIA would be the equivalent of a cash correspondent account of a bank, there is no need to segregate FIAs by fund or umbrella.



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## Clearstream – a solid infrastructure

Clearstream is a leading global financial market infrastructure provider delivering efficient and innovative securities services to customers in over 110 countries. The company operates an International Central Securities Depositories (ICSD) serving the international issuer and investor community as well as domestic CSDs in Germany and Luxembourg.



Clearstream offers services for all major asset classes, covering the full lifecycle of securities from issuance, settlement and custody to collateral management. Innovative solutions to standardise fund processing are making the fund sector safer and more efficient.

### **Strong credit ratings**

Clearstream Banking SA holds strong, long-term AA ratings from major international rating agencies, such as Standard & Poor's and Fitch, demonstrating the company's focus on risk management, operational efficiency and the strict regulatory framework within which it operates as an ICSD and a Securities Settlement System (SSS).

### **Regulatory oversight**

Clearstream's processes are subject to the rules of the supervisory authority of the country in which it operates. As an SSS, Clearstream has to publicly disclose risk management principles in the form of its Pillar III report. Clearstream's regulators conduct a direct review of all our services, connections and network links.

### **Vestima – an integral part of the ICSD**

Clearstream's investment fund services are embedded in the same legal, settlement and custody framework as the ICSD, allowing clients to benefit from our fund services while keeping the advantages of the full integration of their holdings in investment fund shares with those in other asset classes.

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## Contact information

For further information, please contact our dedicated Vestima team:  
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