



**EFAMA**



**EFC**

European Fund Classification

# EFC Procedural Overview for Fund Managers

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## Table of Contents

1. Introduction.....	3
2. Implementation procedure .....	4
2.1. Information used in the classification .....	5
2.1.1. Extended fund hierarchy .....	5
2.1.2. Holdings information .....	5
3. Ongoing classification .....	6
3.1. Getting new funds classified .....	7
3.2. Reaction when not receiving data.....	8
4. Declaration and the Verification Report .....	9
4.1. Self-Certification.....	9
4.1.1. Money Market Funds (MMFs) .....	9
4.1.2. ARIS categories .....	10
4.1.3. Other categories .....	10
4.1.4. Undefined funds .....	11
4.1.5 Declaration of Investment Themes .....	11
4.2. Structure of The Verification Report .....	12
5. Ways of contributing to the classification .....	13

## 1. Introduction

This document outlines the verification process and the structure of the classification template that is used for reporting the results of the European Fund Classification (EFC).

The EFC is a classification determining fund categories on the basis of 10 criteria<sup>1</sup>:

- Country/region
- Sector
- Market capitalization
- Interest rate exposure
- Currency exposure
- Credit quality
- Theme
- Emerging market exposure
- Asset allocation
- Structural characteristics.

The classification is holding-based and is undertaken by FundConnect, who has been selected by EFAMA as Classification Administrator (CA). The CA can be contacted at [efcf@fundconnect.com](mailto:efcf@fundconnect.com).

The CA's main responsibility is to collate and review the portfolio holdings of every fund manager who is interested in adopting the EFC, and to monitor, on a quarterly basis, adherence to the classification criteria, as defined by the appropriate EFC sector definitions.

The CA undertakes the classification on a non-monetary basis. The classification results are freely available on the websites of FundConnect and EFAMA, and it is possible for data vendors or other interested parties to receive the results of the classification in bespoke feeds.

To extend the scope of the EFC, EFAMA has approved the launch of an indicative classification, which serves as a preliminary step towards a verified classification and a way for a broader coverage for the users of the classification. The indicative classification is not monitored as closely as the verified classification and is published without consulting the fund managers concerned. FundConnect has implemented the concept in the Nordics and FE fundinfo has prepared classification for funds distributed in Switzerland and Germany.

This document describes how the verified classification is undertaken, starting with Section 2 which reviews the initial implementation procedure, focusing on the information necessary to initiate the classification process.

Section 3 describes the ongoing flow of information between the CA and the fund managers. This section explains how to get additional funds included in the classification, how the CA reacts in cases where no holdings data is received, or where the holdings of a fund are not in compliance with the current classification.

Section 4 explains the terminology and structure of the declaration and verification report sent out by the CA.

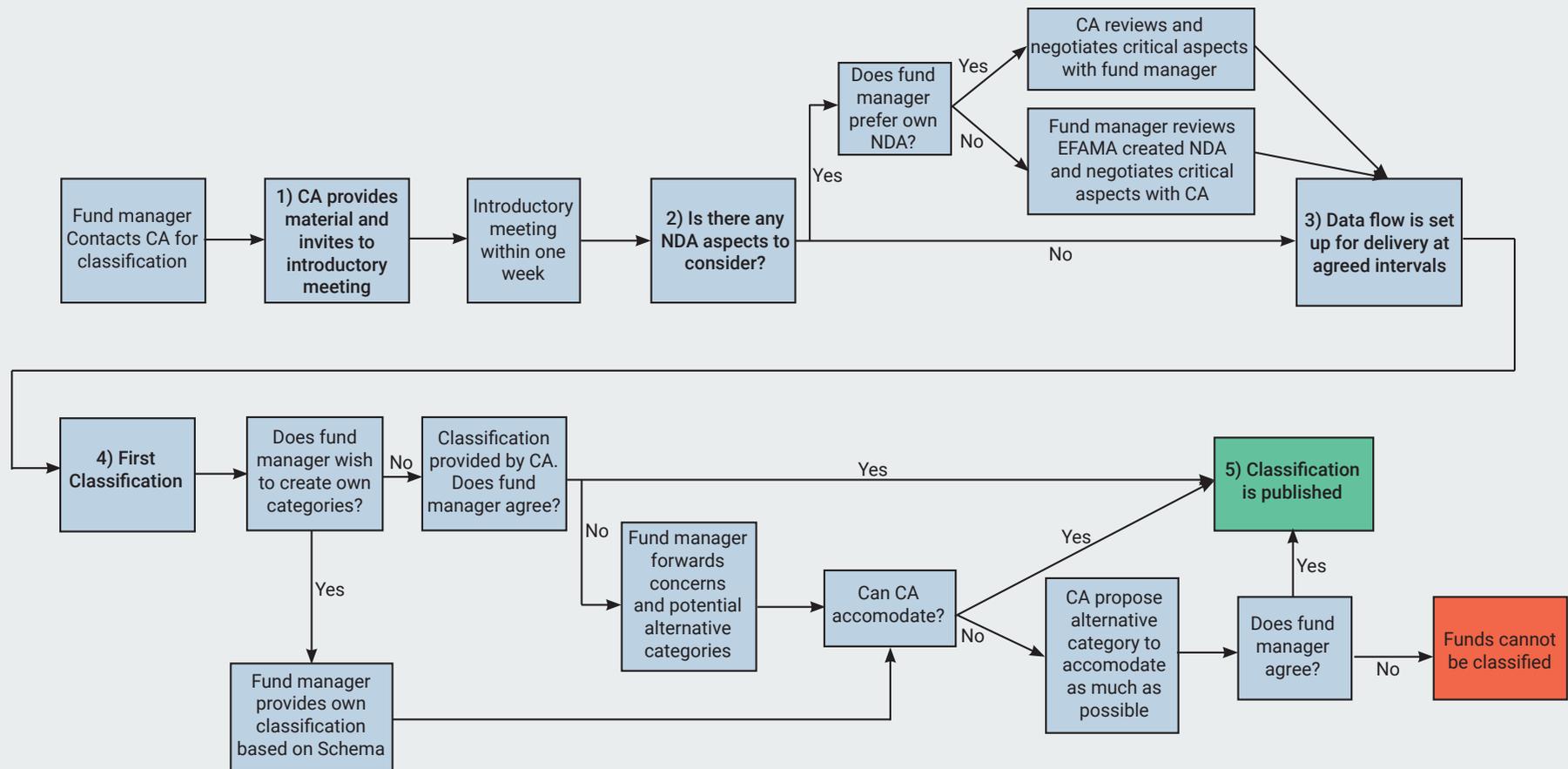
Finally, Section 5 explains how fund managers can contribute to improving the classification.

<sup>1</sup> More information about the EFC methodology and process can be found on the website of EFAMA (<https://www.efama.org/SitePages/EFCF.aspx>)

## 2. Implementation procedure

The decision tree below presents five steps that the fund manager has to go through for being included in the classification for the first time.

Figure 2.1 Decision tree for the initial EFC set up



**1) Introductory meeting:** The Classification Administrator will invite the fund manager to a short meeting or conference call where the classification process, holdings requirements, and further classification monitoring procedure will be explained. Along with the invitation to the introduction meeting, relevant materials will be provided, including this report, the Classification schema, and the EFC model NDA. To ensure communication continuity over time, it is expected that the fund manager provides a group/team email address to be used in the exchange of emails with the CA.

**2) NDA aspects:** EFC can work without an Non Disclosure Agreement in place, provided that the holdings publication delay is less than three months. Should the fund manager wish to have an NDA in place with the CA, the fund manager may either provide its own NDA for the CA to review, or review the EFC model NDA.

**3) Data set up:** Once portfolio holdings data and a list of the funds and share classes are provided, the CA will check the quality of the data and introduce the new funds into the system.

**4) First classification:** A classification will be performed for the requested fund range. The results of the classification will be sent to the fund manager, using the template described in section 4. Fund managers may comment or provide alternatives to the proposed categories. When comments or alternative classification are provided, the CA will check and verify the categories and check if the holdings match the requested classification amendments. If deemed appropriate, the CA will propose an alternative category in order to reach an agreement with the fund manager.

**5) Publishing:** The CA will, on an ongoing basis, publish all categories on which the fund manager and the CA agree. If the CA does not receive any feedback within 30 days, the classification is considered approved and will be published on the EFAMA website and circulated to users.

## **2.1. Information used in the classification**

In order to include funds in the classification, the CA should receive two types of information: an overview of the funds/classes that are to be included in the classification and the holdings of the Equity, Bond or Multi-Asset funds.

### **2.1.1. Extended Fund Hierarchy**

The CA needs enough information to set up the hierarchy of the funds correctly. To do this, the normal Basic Fund Data template (such as the openfunds template<sup>2</sup>) can be sent to the CA. If such a file is not produced, a file containing the following four fields will be sufficient:

- ISIN
- Umbrella
- Sub-fund Name
- Share Class Name
- Hedging Currency

### **2.1.2. Holdings information**

A core philosophy in the EFC is that it should be easy for fund managers to join the classification. Therefore, the CA seeks to use the holdings template of the fund group whenever possible and will assess this before asking for more information.

<sup>2</sup><https://www.openfunds.org/>

### 3. Ongoing classification

On a quarterly basis the classification are reviewed and adherence to the classification criteria is tested. If the CA observes any issues with the current classification, the fund managers will receive suggestions for the new classification results. These suggested classification will be provided using the template defined in Section 4. The overview will also include all funds and share classes that have a verified classification currently in place.

This section describes the overall flow of information that is generated when performing the ongoing verification process.

**Figure 3.1 Quarterly verification overview**

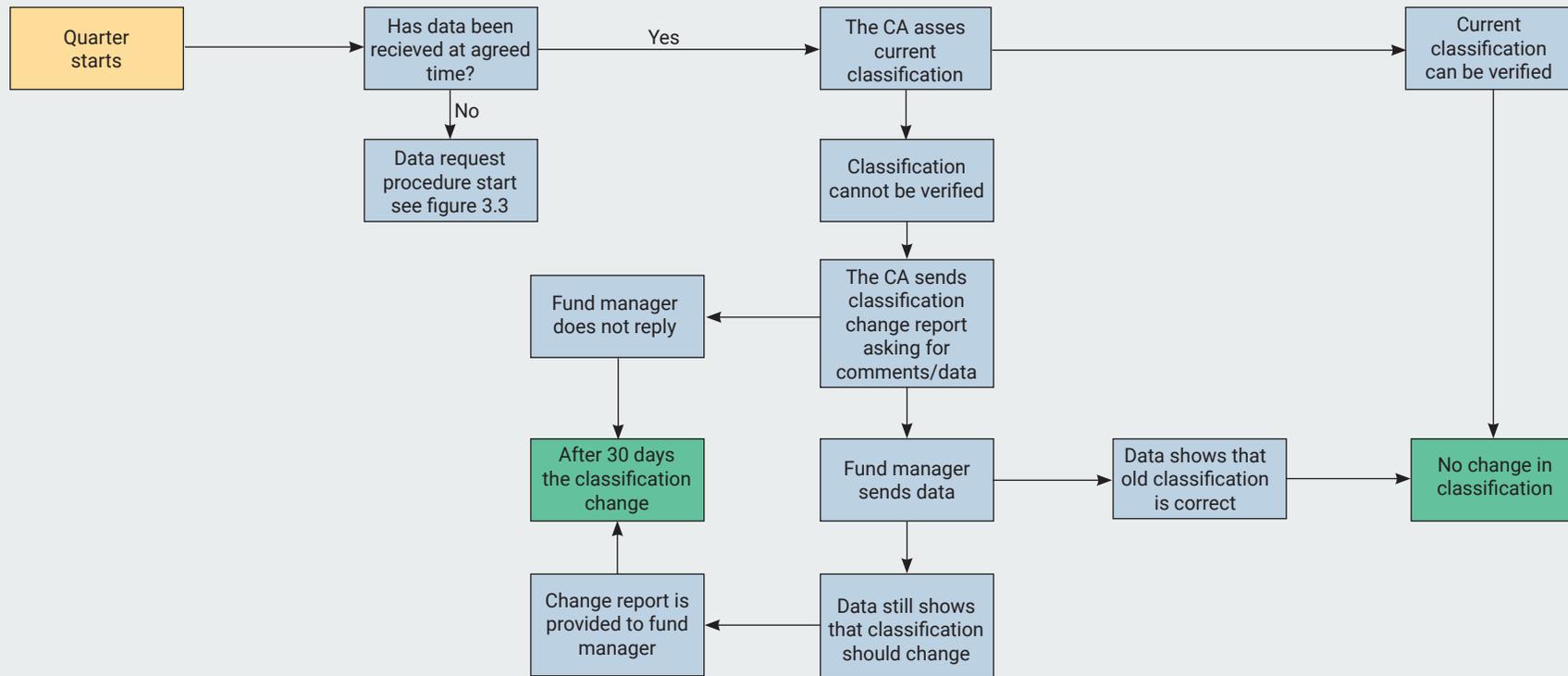
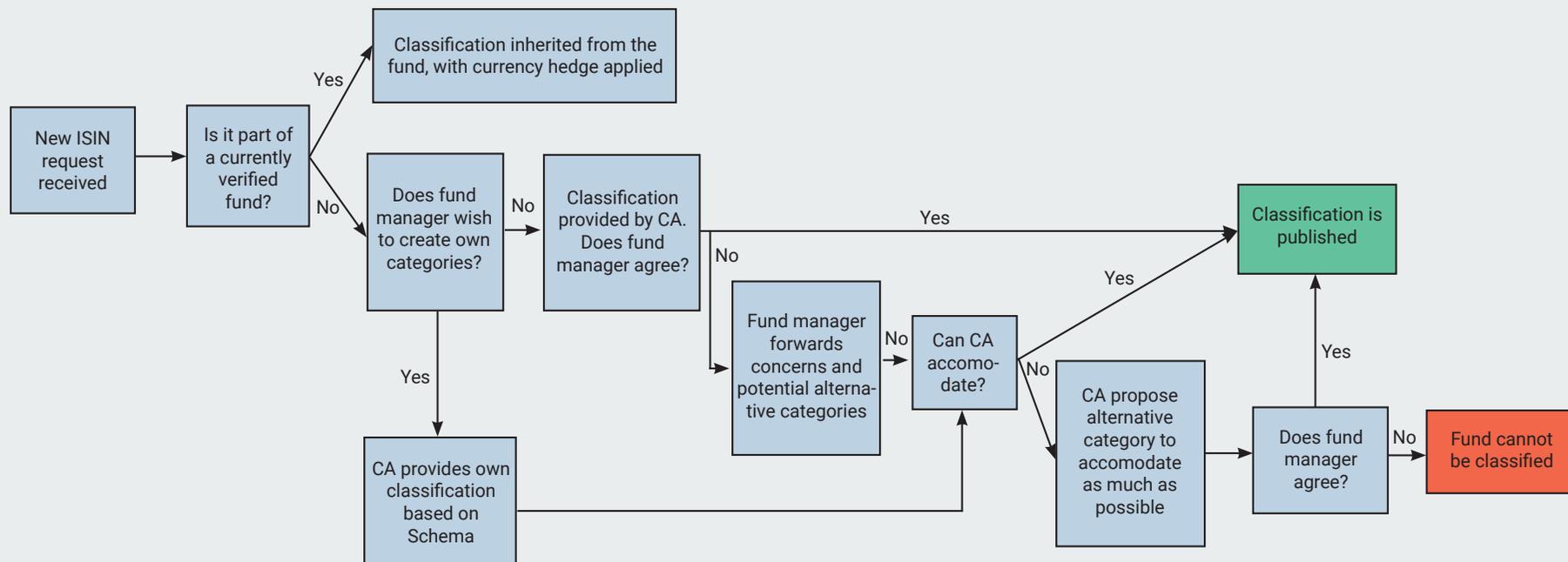


Figure 3.1 illustrates the quarterly verification process undertaken by the CA when a classification of new funds has been requested by the fund manager. If the process leads to a change of classification, the CA will give the fund manager the opportunity to react before the change is implemented. Whenever a fund manager replies, this resets the clock and another 30 days must pass before the change is implemented.

### 3.1. Getting new funds classified

When a fund manager requests a new classification, either directly through a request, or indirectly through the basic fund data file from Section 2.1.1., the following implementation procedure will take place:

Figure 3.2. New fund process

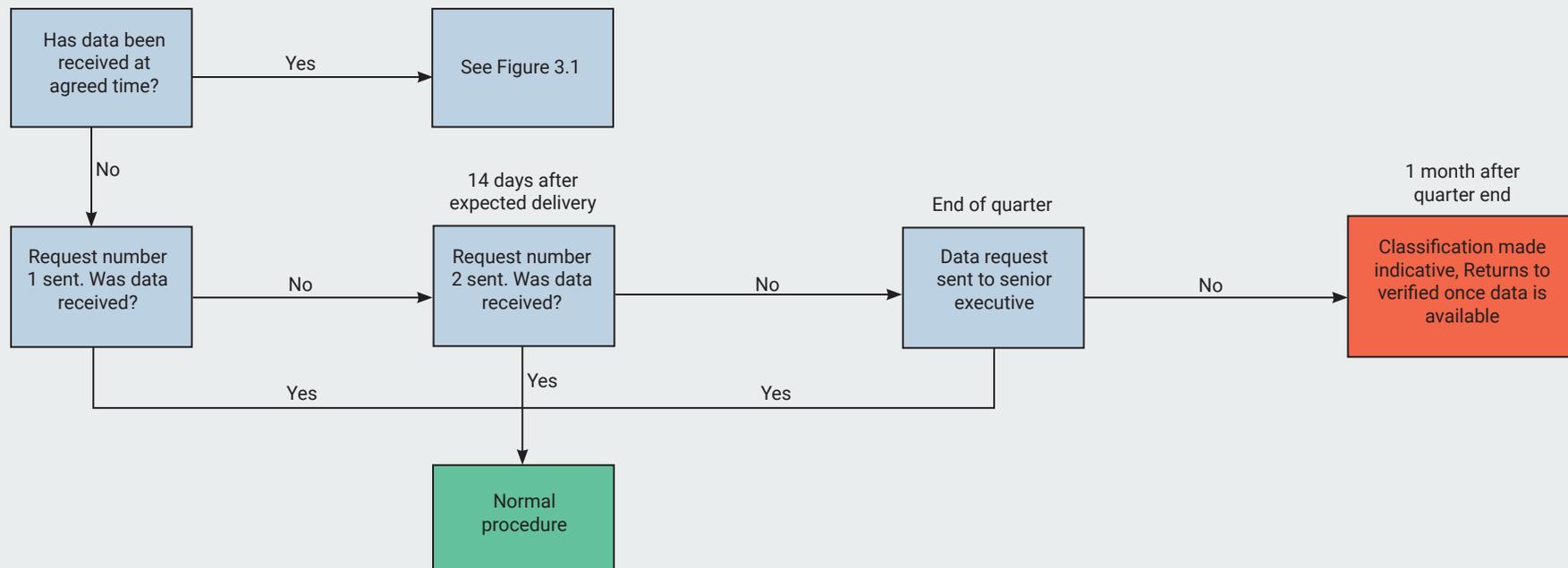


If the CA does not receive a reply within 30 days after providing the classification results, the classification is considered as official and is published.

### 3.2. Reaction when not receiving data

The following procedure is in place on how to react when a fund manager ceases to provide portfolio holdings to the CA.

**Figure 3.3. Data delivery procedure**



- 1) If holdings data are not received according to the normal delivery frequency, the CA will contact the fund manager for updated information.
- 2) A notice will be sent 14 days after expected delivery.
- 3) A final notice will be sent at the end of the quarter. This notice will also be sent out to executive contacts at the fund manager that the CA has on record.
- 4) Four months after the start of the quarter, the classification will be made indicative.

Once the holdings data flow is reestablished with the fund manager, the previous classification is published again, provided that the holdings are in accordance with the previous classification. If the holdings are not in accordance with the previous classification, a new classification will be reported.

## 4. Declaration and the Verification Report

This section explains cases where fund managers have the option to declare classification themselves, based on strategy. Furthermore it outlines the structure of the classification report provided to fund managers following a request for classification. The Verification Report contains:

- An overview of first time classification – where we expect to receive the fund manager’s feedback
- An overview of funds for which the portfolio holdings are not in line with the current classification criteria and a proposition of the classification change.
- An overview of previously provided classification with explanation if the manager has already accepted the given classification.

For new funds, or funds for which the classification has changed, the fund manager should provide feedback on whether they agree or disagree with the classification. If there is disagreement regarding the classification of a fund, the CA will provide further information about why the disputed fund was classified in a certain way. The fund manager is also invited to provide further information on parameters which are critical for the determined classification of the fund.

If the fund manager does not provide feedback within 30 days on the proposed classification, it will be assumed that they are in agreement and the classification will be automatically verified and published.

### 4.1. Self-certification

The EFC, with the exception of structural characteristics and certain fund types, is a holdings-based classification. For Money Market, ARIS, Other funds, and Investment Themes the classification is based on the fund promoters’ declaration

#### 4.1.1. Money Market Funds (MMFs)

Funds will have to comply with the EU Regulation of MMFs in order to be placed in one of the following Money Market Fund categories:

- Public debt Constant NAV MMF
- Short-Term Variable NAV MMF
- Standard Variable NAV MMF
- Low Volatility NAV MMF

All MMFs should also be assigned a currency, e.g. Short-Term Variable NAV Money Market EUR.

#### **4.1.2. ARIS categories**

ARIS Funds are funds that are managed with the objective of generating a positive return over a cash benchmark, irrespective of market movements, and that are likely to make extensive use of derivatives to short/long securities or the market as a whole. ARIS Funds are classified based on the strategy style of the funds.

ARIS funds can be placed in eight categories:

- Directional Strategies
- Long/Short
- Relative Value
- Event Driven
- Multi-Strategy
- Index Trackers
- Leveraged Index trackers
- Fund of ARIS funds

Each category has a number of sub-categories, which are defined in the Brochure presenting the EFC categories.<sup>3</sup>

#### **4.1.3. Other categories**

'Other' categories are also classified on the basis of the declaration of their promoters, except for Convertibles and Asset backed securities. The classification includes the following 'Other' categories:

- Asset-backed Securities
- Mortgage-backed Bonds
- Capital Protected
- Closed-ended Real Estate
- Commodities
- Convertibles
- Guaranteed
- Infrastructure
- Lifecycle/Target Maturity
- Open-ended Real Estate
- REITS

<sup>3</sup> See <https://www.fundconnect.com/Solutions/Assets/EFC%20Categories%20Report.pdf>.

#### **4.1.4. Undefined funds**

When it is not possible to assign an EFC classification, the funds concerned are classified as Undefined. Funds will typically be undefined in situations:

- a) Where it is not possible to determine a classification due to insufficient information on one or more classification parameters.
- b) Where funds do not fit into any of the EFC categories, due to high exposure to cash and/or other assets.
- c) Where fund-of-funds invest in funds for which the underlying holdings are not available.

In order to classify these funds, further information on the relevant classification parameters such as security types, credit ratings, modified duration etc. will have to be included in the supplied holdings reports. For fund-of-funds, holdings information will have to be available to the CA.

#### **4.1.5 Declaration of Investment Themes**

The Investment Themes are presented alongside the normal classification as a flag for equity funds. They represent a focus of the fund investments in companies belonging to a specific investment theme. If a fund provider wishes to present a theme alongside the classification, they can declare it to the CA, who will include it in the public report. The updated list of themes can be found in the classification brochure, and is updated on an ongoing basis.

## 4.2. Structure of the Verification Report

The Verification Report is a final report with the classification results provided to the fund manager.

The Verification Report is structured in the following way:

**Column A:** ISIN code

**Column B:** Class Name

**Column C:** Main Classification (OFST350100) – Possible values: Equity, Bond, Multi-Asset, Money Market, ARIS, Other

**Column D:** EFC Classification (OFST350110)

**Column E:** Classification type (OFST350102) – Possible values: Verified Classification, Indicative Classification

**Column F:** Contains the status and comments to the classification; this could potentially be a comment to the given classification (choice of why a specific category was chosen). But the following three cases are most common:

- First time verified: When a fund is classified for the first time
- Change in classification: when the classification has changed, the fund manager will have the opportunity to comment on the classification before it is being published
- Previously verified and currently published classification: When a requested fund has previously been verified by the fund manager, and there is no change in category
- No holdings: If no holdings data is available for a requested fund

**Column G:** If the fund manager agrees with the classification, they may note it here with a Y. If they do not agree, they may note it here with an N

**Column H:** If the fund manager does not agree with the category, they may state in this column the reason for not agreeing. An alternative category may also be provided here.

**Column I:** Here the fund manager may declare an investment theme for the fund based on the list of investment themes acknowledged by EFAMA, listed in the EFC Categories Brochure.

**Column J:** This field may be filled when requesting an addition to the list of EFCF approved themes. During the EFC Working group meetings the list of requests will be reviewed and new themes may be added.

## 5. Ways of contributing to the classification

The European Fund Classification is owned and driven by the fund industry with the support of EFAMA. This means fund managers can contribute to improving the Classification. This can be done in the following two ways:

- 1) Participation in the work of the EFC Forum, which is a taskforce composed of representatives of EFAMA members  
This forum meets several times per year. The role and function of the forum consists of assessing the progress made in the use of the EFC in the market place, discussing possible revisions of the structure of the EFC and addressing classification problems encountered by the CA. For further information on the work of the forum, please contact the EFAMA Secretariat at [info@efama.org](mailto:info@efama.org).
- 2) Contacting the CA  
Fund managers are invited to contact the CA directly ([efcf@fundconnect.com](mailto:efcf@fundconnect.com)) whenever needed to discuss classification problems. Fund managers may also contact the EFAMA Secretariat, if they so wish.



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