Correct settlement price for the redemption of fund units according to the so-called “forward pricing”

Topic: **Stock exchange / securities account** Case number: **2020/27**

> The client wanted to sell his shares of an investment fund which he held in his Pillar 3a account. He asked the bank how to proceed. The employee told him that a sales order would be executed immediately at the market value of the fund visible in the online banking system. When he wanted to give the redemption order to the bank by telephone a few days later, the employee corrected her colleague’s statement. She tried to explain to the client that if he placed an order before the closing time of 11:00 a.m., the closing price of the fund of the respective day would be decisive. If an order was placed after this closing time, the closing price of the following day would be decisive. This principle, which must be observed in the investment fund sector, is called “forward pricing”. The client’s redemption order was settled at the closing price of the following day, because it was placed after the closing time of the current day. This rate was slightly lower than the rate shown in online banking when the order was placed. The client demanded that the bank reimburse this difference. When the bank refused compensation, he contacted the Ombudsman. The Ombudsman was unable to identify any misconduct on the part of the bank and once again explained to the client the principles applicable to his redemption order.

In its response to the customer’s request for a refund, which the customer submitted to the Ombudsman, the bank apologised for the obviously incorrect information provided by the first employee contacted by the customer and stated that, even though the communication with the second employee, with whom the customer finally placed the redemption order, had not been entirely satisfactory, her statements regarding the principle of forward pricing were basically correct. What is this principle about?

Forward pricing is a standard used worldwide for determining the issue and redemption price of collective investment schemes. In Switzerland, it is laid down in a guideline of the Asset Management Association Switzerland, which forms part of the self-regulation of the Swiss fund industry and has been recognised as a minimum standard by the Swiss Financial Market Supervisory Authority FINMA. With forward pricing, the fund management company or SICAV (investment company with variable capital) settles the orders received up to a certain point in time (closing time) for the purchase and redemption of units at a net asset value, which it determines on the basis of market prices paid after the closing time. The net asset value applicable to the settlement of the order is therefore not yet known at the time the order is placed.

This is intended to prevent investors from being able to buy or sell fund units at an already fixed price in the knowledge of new information or stock market trends, thereby harming unit holders who do not have such information. The principle thus ensures that all investors have the same conditions for their orders to purchase and redeem fund units. The exact closing and settlement times are specified in the fund regulations and are of course the same for all investors. In addition, the terms and conditions of the individual banks may also provide for cut-off times for orders.

When first contacted, the Ombudsman understood the client to be of the opinion that the bank should be held responsible for stating that the redemption value of the fund units corresponded exactly to the market value shown in the online banking system and that the redemption order would be executed immediately when placed. In the Ombudsman’s view, this argument was already not valid because the client only placed the redemption order a few days after receiving this false information and had been correctly informed about the settlement modalities before placing the order. The bank admitted to certain communication problems in this context. However, no actual misinformation was apparent. The Ombudsman informed the client of this in a notice and explained the principle of forward pricing to him once again.

Some time later, the customer contacted the Ombudsman again and explained that he felt he had been misunderstood in the decision. He had apparently looked into forward pricing in the meantime, but now believed that the bank had not applied this principle correctly. The Ombudsman checked the settlement for the redemption of the fund units for him on the basis of the closing prices respectively net asset values published on the Internet and established once again that, in his view, it was correct. He informed the client of this in a final notice.