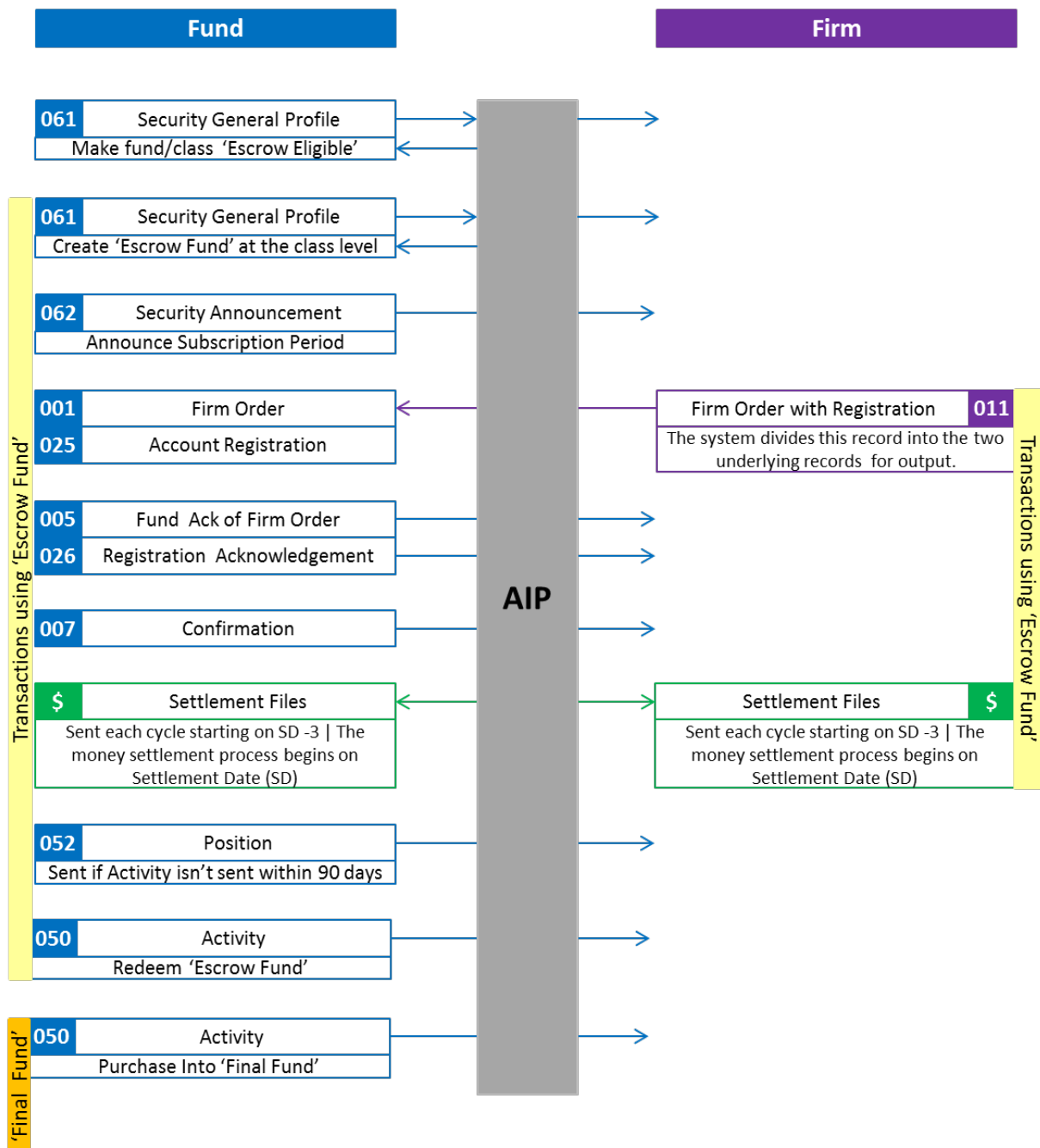


# ALTERNATIVE INVESTMENT PRODUCTS

## TRANSACTION FLOW

### HEDGE FUND

#### ESCROW PURCHASE-SUBSCRIPTION ORDER WITH REGISTRATION



Note: Reminders and exceptions have been removed for simplicity

## **HEDGE FUND**

### **ESCROW PURCHASE-SUBSCRIPTION WITH REGISTRATION**

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Hedge Fund purchases-subscriptions follow a similar process as non-traded REIT and BDC purchase orders; however, there are also key differences, especially when an escrow fund is being utilized.

For the purposes of this process, a hedge fund is defined as any fund that has one of the following Security Types on the Security General Profile:

- 01 = Hedge Fund
- 02 = Fund of Funds
- 12 = Registered Hedge Fund

#### **How to Create a Parent/Child Relationship and Open the Offering Period**

- The Fund submits a Security General Profile (061) to create the parent fund and makes it eligible to have an escrow fund by populating the 'Sub-Type Eligible Indicator' field with '1'.
- The Fund submits a Security General Profile (061) to create the escrow fund, populating the appropriate fields including the 'Fund Sub-Type Indicator' with '1' and the 'Related Parent NSCC Security Issue Number'.
- The Fund submits a Security Announcement (062) on the escrow fund to establish the subscription offering period;
  - **Note:** Certain fields are 'required' for hedge fund subscription offering as noted in the Data Dictionary.

#### **How to Submit a Hedge Fund Purchase-Subscription Order**

- The Firm submits a Firm Order with Registration (011) on the NSCC Security Issue Number of the escrow fund.
  - All transactions must have a unique Control Number established by the Firm that will identify the trade.
  - The Firm must populate all of the required fields to minimize potential rejects.
  - The AIP system receives a Firm Order with Registration (011) and separates it into two records: Firm Order (001) and Account Registration (025).
  - **Note:** The Firm also has the option to submit a 001 and 025 records separately, instead of the 011, which combines them into a single record for input.
- NSCC will validate the Firm Order for syntax and against the Security Announcement record to verify if there is a valid Subscription Offering for that NSCC Security Issue Number that was previously established on the AIP database by the Fund.
  - If the record is rejected by NSCC, it will be returned to the submitter with the appropriate NSCC Reject Reason Code(s) populated.
  - If accepted with errors, soft rejects will go to the Fund to inform them of a mismatch during the validation process.
  - If the record is accepted by NSCC, it will be forwarded to the intended recipient.

### **Fund Acknowledgement of Firm Order & Registration Acknowledgement**

- Based on best practices, Fund Acknowledgement of Firm Order (005) & Fund Registration Acknowledgement (026) is expected to be transmitted by the end of the next AIP business day.
- Upon receipt of the Fund Acknowledgement of Firm Order and Fund Registration Acknowledgement, AIP will send the records to the Firm in the next scheduled AIP output cycle.
  - **Note:** The Fund has the option to 'reject' the Order (006) and/or Registration (027); please see section below 'Important Information' below regarding rejects.
- If rejected, the Fund will transmit an NSCC Reject Indicator (1 = Rejected by Fund) and populate the appropriate Fund/Firm Reject Reason Code back to the Firm through AIP.
- If AIP does not receive the Fund Acknowledgement of Firm Order (005) and/or Registration Acknowledgement (026), AIP will send daily Reminders for the Pending Order Acknowledgement (083) and Registration Acknowledgement (081) for the next 15 (AIP business days) to both the 'Originator' and the 'Recipient' until acknowledgement is received or settlement date minus 2 (SD-2) is reached. If the acknowledgement and/or Registration are not received by the C98 – End of Day Cycle on settlement date minus 1 (SD-1), AIP will convert the trade to a "closed" status.
  - **Note:** The Reminder messages are created by AIP to notify both parties of trades 'requiring action'.
- Upon receipt of the Fund Acknowledgement of Firm Order (005) & Registration Acknowledgement (026), AIP will store the transaction in the database until the Fund confirms the Order transaction.

**Optional:** A Correction (008) to update details of the Order can only be initiated by the Firm and can be sent anytime after Fund Acknowledgment through the cycle before C98

### **Fund Confirmation and Exits**

- If the Fund does not send an 'Fund Confirmation' (007) for the Subscription/Purchase Order, a Pending Order Confirmation Reminder (085) will be transmitted to both parties ten (10) AIP business days prior to settlement date. Reminders for the Fund Confirmation will continue until SD-2 is reached.
- If the Fund accepts the Firm Order, a Fund Confirmation (007) must be sent and AIP will forward the Confirmation to the Firm to finalize the Subscription/ Purchase Order.
- If the trade is not confirmed by the Fund by the C98 – End of Day Cycle on (SD –1), then the trade will be converted to a 'closed' status. The Firm Order can no longer settle via the AIP Platform.

**Optional:** A Fund Exit (010) or Firm Exit (009) can be initiated to cancel the Order

  - The Exit must be sent prior to the C98 – End of Day Cycle on Settlement Date minus 1 (SD-1).
  - Once AIP receives the Exit, the Firm Order is converted to a 'Closed' status and no further action is allowed against the Order transaction.

### **Settling Purchase-Subscription Order**

- A Subscription/Purchase Order is determined to be settling on the AIP System if the following fields are populated on the Subscription/Purchase trade:
  - Settlement Indicator = 1 (Settling)
  - Settlement Currency = USD
- Otherwise, the Order is determined to be Non-Settling and must be settled outside of the AIP System; Settlement Indicator = 2 (Non-Settling)
- Settlement files will be provided by the AIP system:
  - Settling Transactions – AIP will transmit settlement files to both parties starting 3 AIP business days prior to the Settlement Date (SD) and will be included in each cycle on SD-3, SD-2, SD-1 and SD for trades that are confirmed and ready to settle
  - Non-Settling Transactions – If the Settlement Date is populated, AIP will transmit settlement files to both parties starting 3 AIP business days prior to the Settlement Date (SD) and will be included in each cycle on SD-3, SD-2 and SD-1 for trades that are confirmed and 'ready to settle'
  - Non-settling Transactions – If the Settlement Date is **NOT** populated, AIP will not include these transactions on the settlement files
  - **Note**: Please refer the settlement transaction flow for more detailed information

### **Important Information for Firm Order with Registration Settlement**

In order for a Firm Initiated Order with Registration to be 'ready to settle', the following records must be processed in AIP:

#### **Record Types**

- Firm Order with Registration (011) or Firm Order (001) and Registration (025)
- Fund Acknowledgement of Firm Order (005)
- Registration Acknowledgement (026)
- Fund Confirmation (007)

### **Important Information for Rejects**

#### **Processing Rejects for an Order that is linked to a Registration**

- If the Registration record is linked to an Order and the Order is rejected by the Fund, this will not reject the Registration record; the Registration record can still be processed
- If the Order is rejected by the Fund, AIP will close the Order and the Control Number of that Order cannot be used again
- A new Order with a new Control Number can be submitted, but it cannot be linked to the original registration since they will have different Control Numbers
- If the Registration was Acknowledged (not rejected) by the Fund, a new stand-alone Order can be sent and the Registration Indicator on the new Order must be populated with (0) = No Registration Required; alternatively a new Order and a new Registration with a new Control Numbers can be sent

#### **Processing Rejects for a Registration that is linked to an Order**

- If the Order transaction is linked to a Registration and the Registration is rejected by the Fund, the Order transaction cannot complete the life cycle

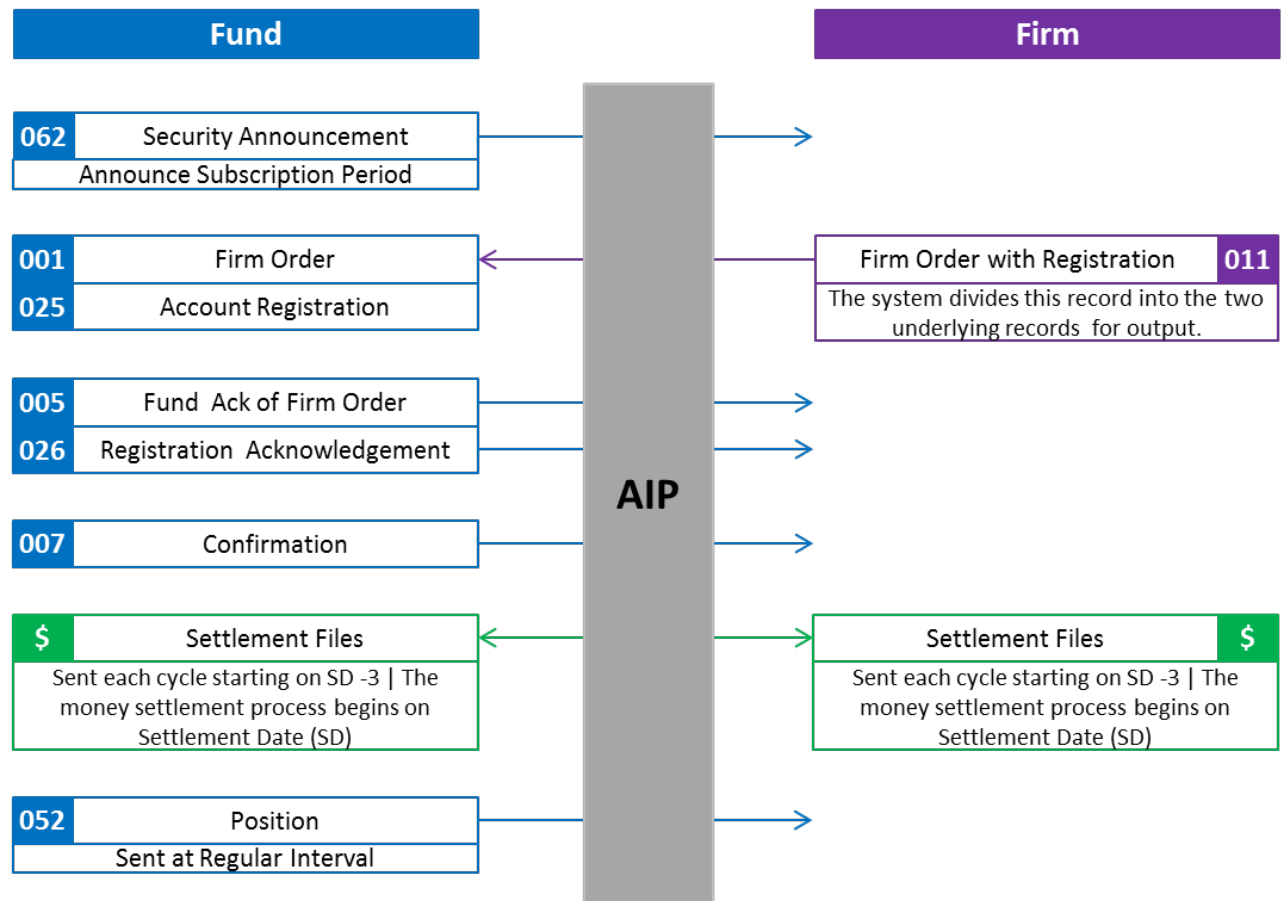
- If the Order transaction is Acknowledged and the Fund rejects the Registration record, AIP will not allow the participant to re-transmit a Registration using the same Control Number to tie it back to the original Order
- AIP will validate if there is an existing Registration stored in our database with the same Control Number as the Order transaction and since it can't find one, AIP will reject the Order during the Confirmation Process and/or close the Order in the C98 on SD-1
- A new Order and Registration must be submitted with new, matching Control Numbers

#### **Position and Activity Reconciliation for the Escrow & Final Fund**

- The Fund will send Position (052) information on the escrow fund as needed
- The Fund will send two Activity (050) records to finalize the transaction
  - One with Activity Type 64 = Escrow Redemption to redeem out of the escrow fund (non-settling)
  - One with Activity Type 67 = Final Fund Purchase to purchase into the final fund (non-settling); all future reporting will be on this parent/final fund

# HEDGE FUND

## NON-ESCROW PURCHASE-SUBSCRIPTION WITH REGISTRATION



Note: Reminders and exceptions have been removed for simplicity

## **HEDGE FUND**

### **NON-ESCROW PURCHASE-SUBSCRIPTION WITH REGISTRATION**

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Hedge Fund purchases-subscriptions follow a similar process as non-traded REIT and BDC purchase orders; however, there are also key differences, especially when an escrow fund is being utilized.

For the purposes of this process, a hedge fund is defined as any fund that has one of the following Security Types on the Security General Profile:

- 01 = Hedge Fund
- 02 = Fund of Funds
- 12 = Registered Hedge Fund

#### **How to Open the Offering Period**

- The Fund submits a Security Announcement (062) on the escrow fund to establish the subscription offering period;
  - **Note:** Certain fields are 'required' for hedge fund subscription offering as noted in the Data Dictionary.

#### **How to Submit a Hedge Fund Purchase-Subscription Order**

- The Firm submits a Firm Order with Registration (011).
  - All transactions must have a unique Control Number established by the Firm that will identify the trade.
  - The Firm must populate all of the required fields to minimize potential rejects.
  - The AIP system receives a Firm Order with Registration (011) and separates it into two records: Firm Order (001) and Account Registration (025).
  - **Note:** The Firm also has the option to submit a 001 and 025 records separately, instead of the 011, which combines them into a single record for input.
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  - If rejected, the Fund will transmit an NSCC Reject Indicator (1 = Rejected by Fund) and populate the appropriate Fund/Firm Reject Reason Code back to the Firm through AIP.
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    - **Note:** The Reminder messages are created by AIP to notify both parties of trades ‘requiring action’.
  - Upon receipt of the Fund Acknowledgement of Firm Order (005) & Registration Acknowledgement (026), AIP will store the transaction in the database until the Fund confirms the Order transaction.
- Optional:** A Correction (008) to update details of the Order can only be initiated by the Firm and can be sent anytime after Fund Acknowledgment through the cycle before C98

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#### **Record Types**

- Firm Order with Registration (011) or Firm Order (001) and Registration (025)
- Fund Acknowledgement of Firm Order (005)
- Registration Acknowledgement (026)
- Fund Confirmation (007)

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- If the Order transaction is linked to a Registration and the Registration is rejected by the Fund, the Order transaction cannot complete the life cycle
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- AIP will validate if there is an existing Registration stored in our database with the same Control Number as the Order transaction and since it can't find one, AIP will reject the Order during the Confirmation Process and/or close the Order in the C98 on SD-1
- A new Order and Registration must be submitted with new, matching Control Numbers