

Avoiding confusion over UCITS orders centralisation cut-off times

Order centralisation: this technical term refers to an essential phase in the processing of orders to buy or sell UCITS units or shares. Investors are often unaware that this is when the net asset value at which their orders will be executed is determined, and that in some cases it can be extended perfectly legally by their intermediary. Investors' ignorance is understandable when the information provided by their account-keeper is not sufficiently clear or precise, as in the case described below.

The facts

At precisely 12.55pm on 21 July 2015, Mr D placed a sell order via the internet for all the units he owned in a UCITS. He stated that the Key Investor Information Document (KIID) indicates that orders received up until 1pm are executed at that same day's net asset value.

Mr D monitored his account closely and noted that instead of being executed at the net asset value for 21 July, his order was executed at the net asset value for 22 July, which was lower. Unable to understand why, Mr D complained to his account-keeper, who confirmed that his order was indeed received on 21 July 2015 and executed on the basis of the following day's net asset value, i.e. that for 22 July.

Believing himself a victim of a mistake in the execution of his order, Mr D asked me to intervene. He considered that this situation had been detrimental to him, given the decline in the net asset value, and claimed the difference in the net asset value between 21 July and the following day.

The analysis

First of all, it should be understood that the regulations specify a deadline for the centralisation of UCITS orders. This cut-off time is the latest time at which an order can be placed¹ in order to be received and taken into account by the centraliser² on the same day. In other words, orders placed after this time are taken into account and executed on the basis of the following day's net asset value.

This centralisation cut-off time appears in the fund's regulatory documentation, notably the KIID³.

That said, if the financial intermediary – the sole party in contact with the client – is not directly connected electronically with the centraliser, it will require an additional order collation period before passing its orders to the centraliser. This collation time cannot appear in the KIID, which is a strictly standardised document. At European level, and where this additional time exists, it varies from one intermediary to another. It must therefore be brought to the client's attention in contractual form.

I have examined the documentation for the UCITS in question, including the KIID and the fund prospectus. It states that *"sell orders are centralised... from Monday to Friday at 1pm, and are executed on the basis of the net asset value dated that same day."*

I then questioned the account-keeper to allow it to make its own observations on the execution of Mr D's order.

¹ Generally at an 'unknown price', cf. our July 2015 article, ["On what basis should a late-executed share redemption for a SICAV be settled?"](#)

² Usually the depositary.

³ Harmonised at European level since 1 July 2011, the KIID is provided to the investor before any purchase of fund units or shares. Its 2-3 pages are intended to provide clear, precise and non-misleading information to savers through a description of the product's main features.

As the intermediary in this transaction, the institution told me that it had brought forward its order reception cut-off time to 12.50pm because of the technical requirements involved in the collation and transmission of orders to the centraliser.

In my view, the information given on the financial intermediary's website on the order cut-off time was not sufficiently clear and accessible to enable investors to understand that it is not possible to submit orders right up to 1pm, as they could legitimately believe with regard to the KIID.

I have observed that many financial institutions carefully explain in both their prospectuses and on their websites when the contractual cut-off time for client orders is earlier than the centraliser's cut-off time indicated in the KIID. This was not the case here.

The recommendation

In the light of all these considerations, I consider that Mr D was misled. It seems to me that had Mr D been provided with clear and precise information on the additional time constraint imposed by his account-keeper, which reduced the order reception cut-off time by 10 minutes, he would have placed his order within the deadline. His units would therefore have been sold on the same day, in accordance with the terms of the prospectus and the KIID, on the basis of the more favourable net asset value of 21 July.

Following my intervention, the institution agreed to reimburse Mr D for the price differential.

Moreover, and beyond this particular case, the institution promised to help avoid any such errors in the future by improving its information on the order cut-off time when this differs from the centralisation cut-off time mentioned in the KIID.

The lesson to be learned

In the event that they seek to place a UCITS buy or sell order, investors' attention must be drawn to additional contractual time constraints specific to their intermediary.

Moreover, intermediaries that bring forward order cut-off times in order to gain the time they need to collate orders must inform their clients of that specific cut-off time in an easily accessible manner. This is aimed at avoiding confusion among their clients, which could create a risk of contractual liability.

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