

FX Initiatives Update

ECB FX Operations Managers Group

15 November 2011

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Agenda

- FX Derivatives Trade Repository
- LEI – Legal Entity Identifiers
- Netting position confirmations - *update*
- SSI distribution messages - *update*
- Consolidated CLS fund manager reporting





AFME Global TR current status

- Proposed delivery phases
 - Phase 1 Q2 2012, end of day snapshots
 - Phase 2 Q4 2012, intra-day PET and Confirmation data
 - Phase 3 2013, real-time reporting
- ‘Native’ data submission interfaces
 - FPML (v5.3)
 - CSV files
 - GUI
- Key industry challenges
 - UPI, USI, LEI
 - Collating data fields required under D-F
 - Managing global vs. local requirements



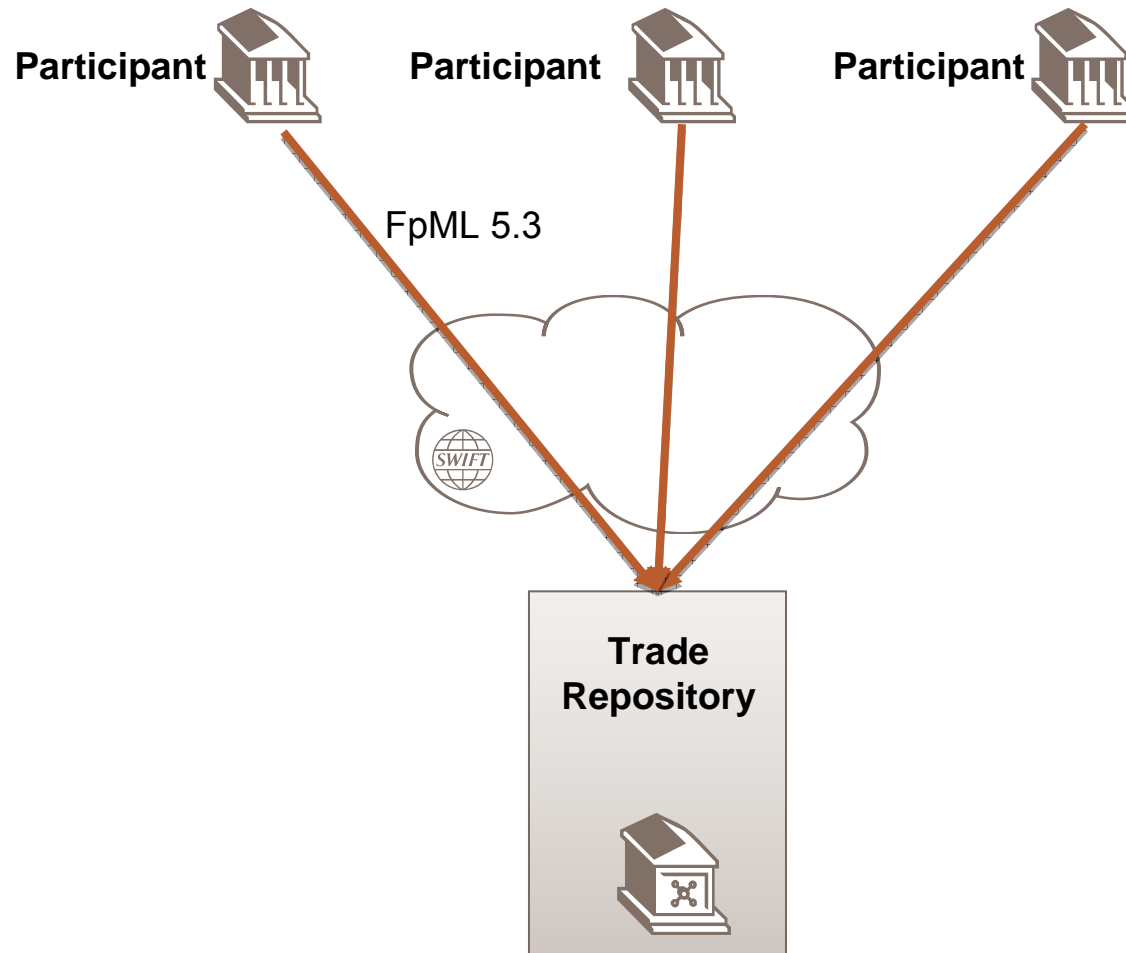


SWIFT assumptions re. data submission

- Flexible solutions required to meet varied needs
 - FPML direct from reporting party
 - Across all derivative classes
 - Utilise existing SWIFT MT3xx confirmations
 - SWIFT already carries traffic for ~70% of FX derivatives
 - MTs
 - CLS (MT & Interact)
 - ISO20022 (CLS2)
 - Secure file submission
 - Optionally also pre-submission matching
- Consistent approach required across TRs



FpML over SWIFT



SWIFT FpML service live since 2008.

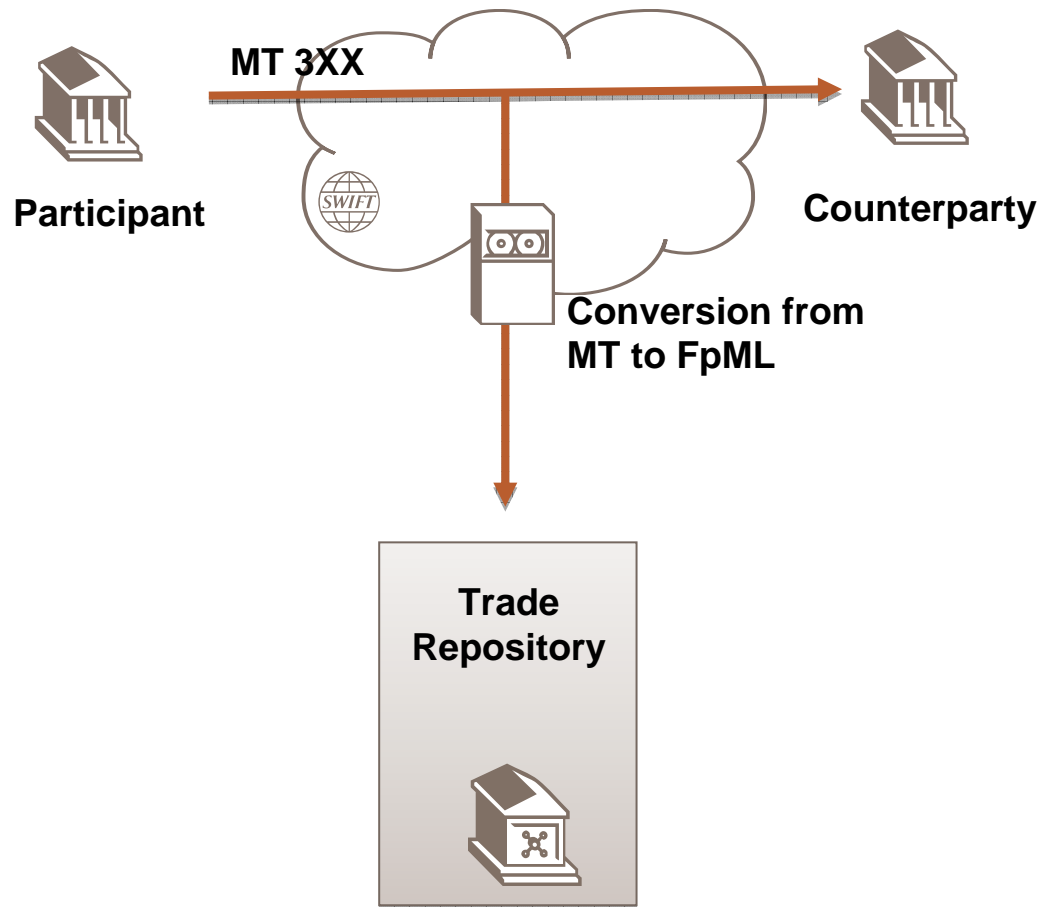
FpML messages (XML syntax) are transported using the SWIFT InterAct store and forward service.

SWIFT can provide validation, authentication non-repudiation and guaranteed delivery, for all transported messages.

Standard solution for all OTC derivative classes.



Utilisation of existing MT3xx confirmations



FINInform automatically copies specified message types and forwards them to one or more selected destinations. Rules can be defined to provide specific filtering on copy selection.

MT3xx can be enhanced to support LEI, UPI, USI etc.

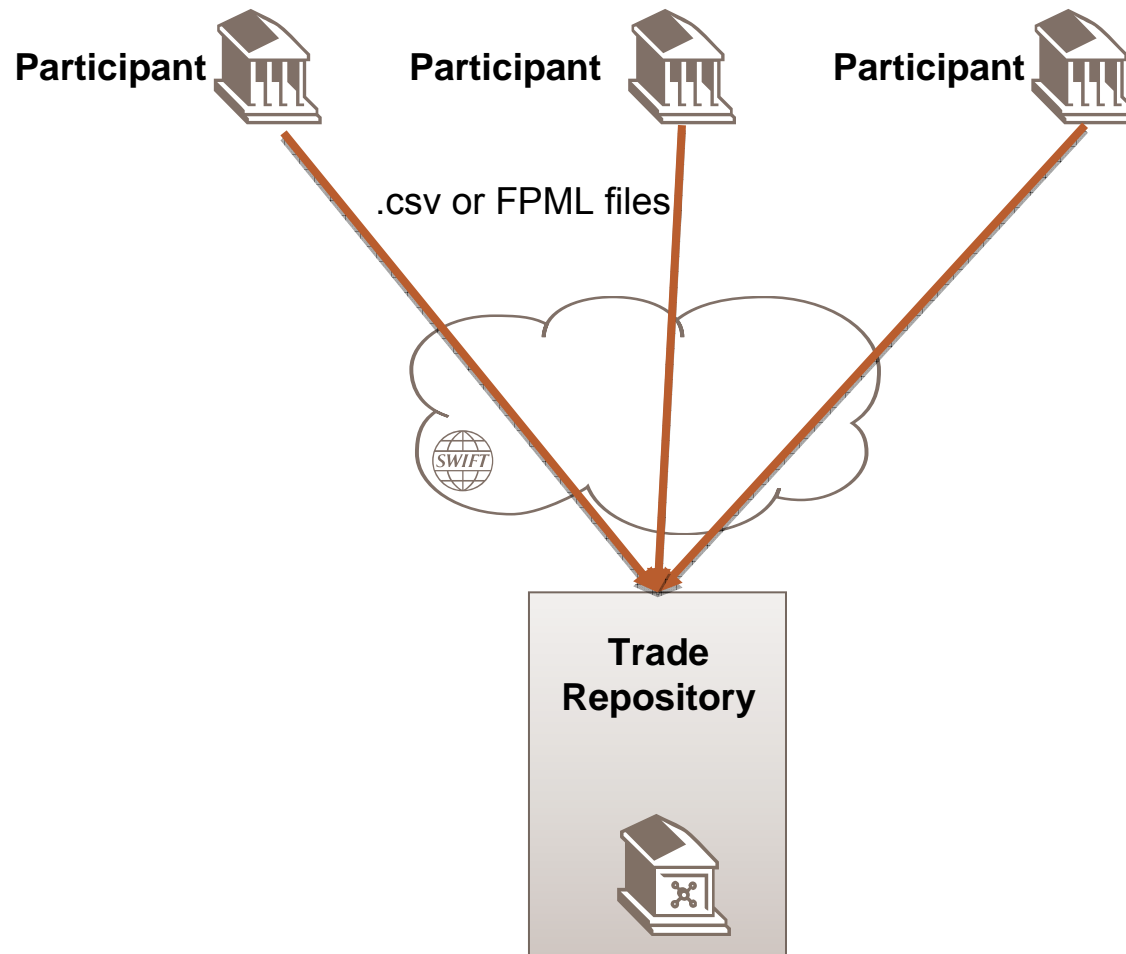
No action or internal development required from either the sender or the receiver and no operational impact on them.

Conversion to FpML can be provided before submission to the TR

Accord matching could also be provided.



File submission via FileAct



Can be used for submission of snapshot files as well as valuations.

- Highly resilient & reliable
- Secure
- Global reach
- Easy implementation
- Open format
- Cost effective





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Legal Entity Identifier - Objectives

1. Define a universal standard for identifying parties to financial contracts
 - To reduce cost of data reconciliation and ensure data consistency
 - To facilitate aggregation of positions and risk monitoring
 - To standardise transactions reporting
2. Respond to requirements from global regulators
 - European Commission – Mifid, Emir
 - European Securities and Markets Authority (ESMA)
 - Office of Financial Research (OFR)
 - Commodities Futures Trade Commission (CFTC) – Trade Repositories / OTC Derivatives





ISO 17442



- New standard
 - No existing standard match requirements
 - Scope, Definition, Rules
 - Syntax
 - Registration Authority appointment
- Draft International Standard = ISO 17442
 - Structure
 - 18!an
 - 2!n (check digit)
- Final: January 2012





LEI Data Attributes

Core LEI Record Attributes – Public database

Record creation date – Valid from date

Last update date

Record validation date (Quality assessment)

Expiry date of the record (when applicable)

Status (active, dissolved, etc.)

LEI code

Registered name (Exact official name)

Address (Registered)

Jurisdiction of registration – Country

Legal form

Additional LEI Record Attributes

Ultimate parent LEI (hierarchy)

Immediate parent LEI (hierarchy)

Alternate trading / short name

...





Business model

- Guiding principles
 - Financial industry → LEI utility
 - Regulators → Non profit
 - ISO → Cost recovery
 - Free access to the database
- Phases
 - Implementation and ramp-up = cost sharing model
 - Maintenance = registration fee
 - Added value services





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Background & History 1 of 2

- SWIFT Standards received request for a new message 'FX netting position advice' from CH July 2010. Similar requests also received by the SWIFT marketing team.
- Following discussions with Bank of England FX Operations Managers Group (BoE JSC OMG), a working group was formed to assess the need.
- During these working group meetings:
 - decision for MT rather than XML
 - requirements were discussed and together with SWIFT Standards a preliminary message specification was created.

BoE JSC OMG FX Netting Position Working Group Participants:			
Barclays	Citi	Credit Suisse	Deutsche
Goldman Sachs	HSBC	JP Morgan	Morgan Stanley
Nomura	Rabobank	RBS	UBS





Background & History 2 of 2

- June 2011 SWIFT board agreed message development project to go ahead.
(Decision to put the new MT on SWIFT network is decided by a SWIFT country vote in the September 2011 timeframe.)
- SWIFT FX Netting Position Advice Message MT Working Group convened.
(User Group Chairpersons of countries with highest usage of categories 3 and 1 message types were requested to provide delegate/s to represent her/his country in the SWIFT message specification working group.)
- September/October 2011 – proposal circulated for country voting and approval received
- November 2011- advance information published on swift.com





Business Context

- Banks currently bilaterally agree net positions using manual means.
 - N.B. only relevant for trades & instruments that don't settle in CLS.
- Consensus that standardization and automation of this process would bring both operational and control benefits.
- Banks generally have between 0.5 and 1.0 FTE devoted to bilateral netting of positions with the other top 15 banks.
- Banks with corporate clients have up to 10 FTE focused on agreeing netting positions.
- Elimination of effort and associated operational risk is highly desirable.

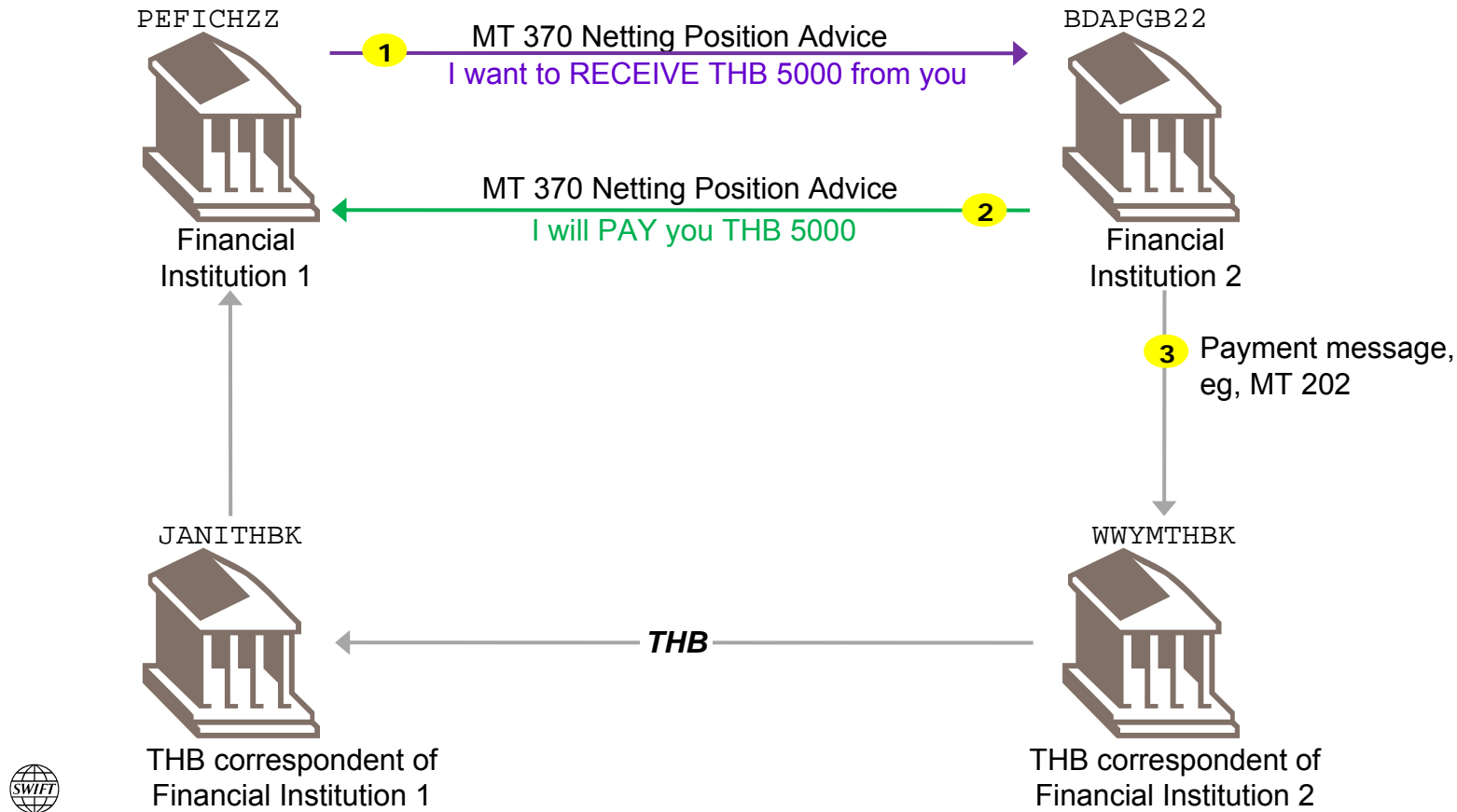
SWIFT receiving similar requests for information from the buy-side





Example usage

Scope: the MT 370 Netting Position Advice message is sent by a financial or non-financial institution to another financial or non-financial institution. It is used to advise the netting position of a currency resulting from foreign exchange, non deliverable forward (NDF), options and other trades. It also specifies the settlement information for the currency.





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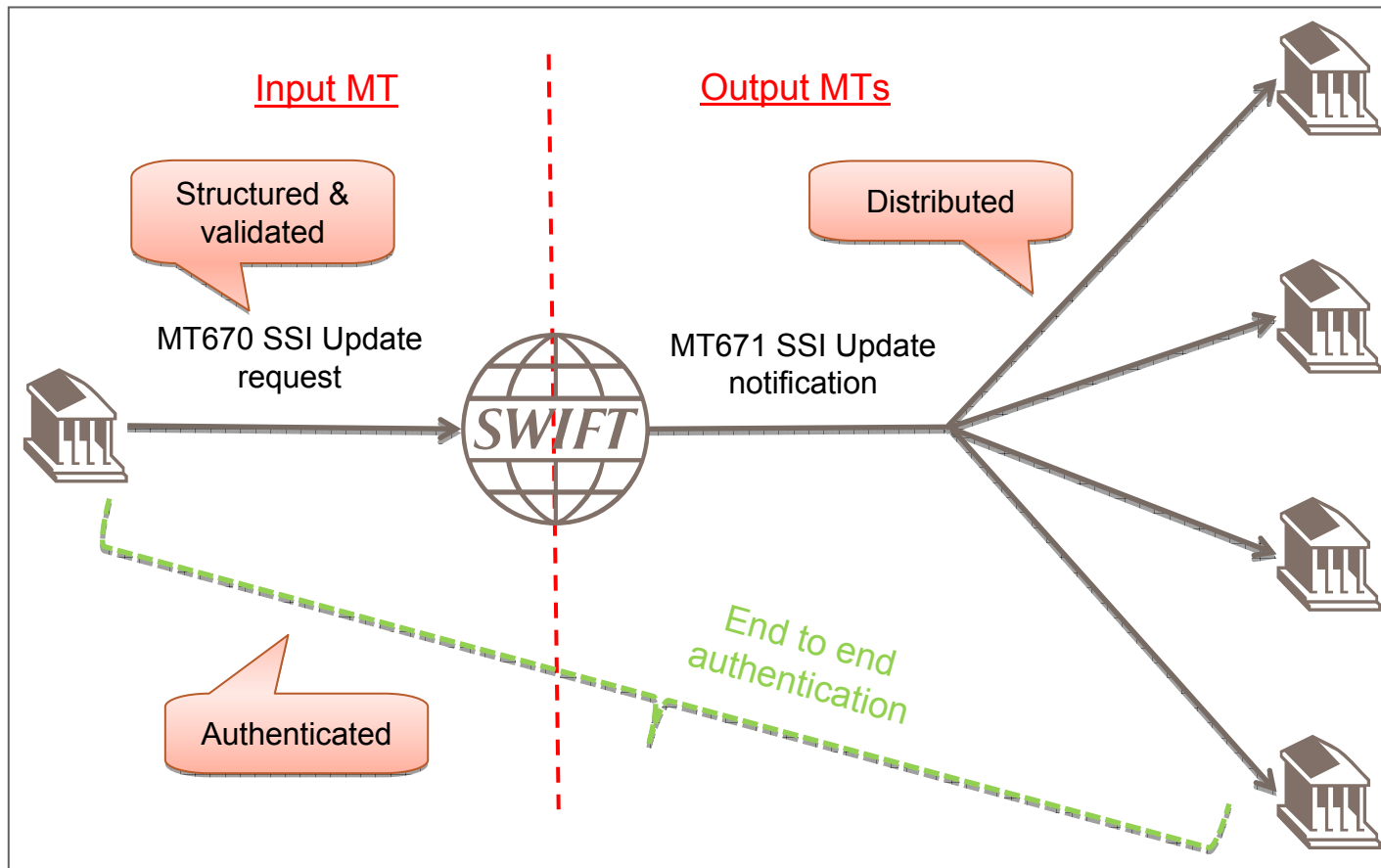
Driver for change - background

- May 2009 - FXAG requirement for an SSI update message:
 - Authenticated
 - Structured
 - Validated
 - Distributed
 - Over FIN (owing to reach)
- Existing solutions do not meet requirements
 - E.g. MT074 is not authenticated, structured or validated

⇒ Industry cost savings



MT670/1 Solution overview





Key features

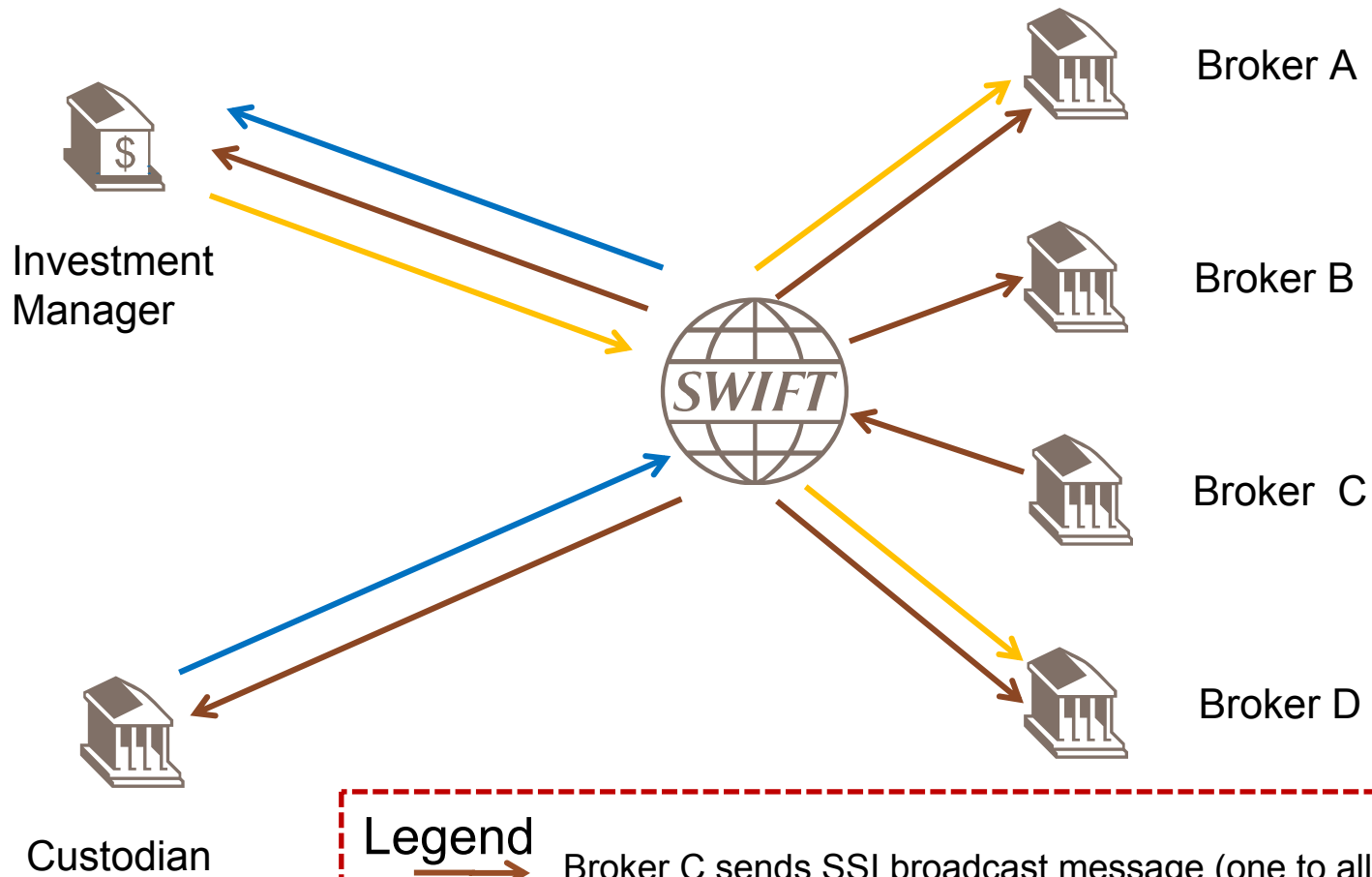
- Distribution to:
 - List of BICs (up to 100) or
 - List of countries (up to 80) or
 - All BICs on network
- Multiple SSIs per message
- Can be sent 'on behalf of'
- Supports all 'cash' business lines

- On network from November 2011
- SSI support in broadcast (MT074) will be removed in 2013








Sample scenarios

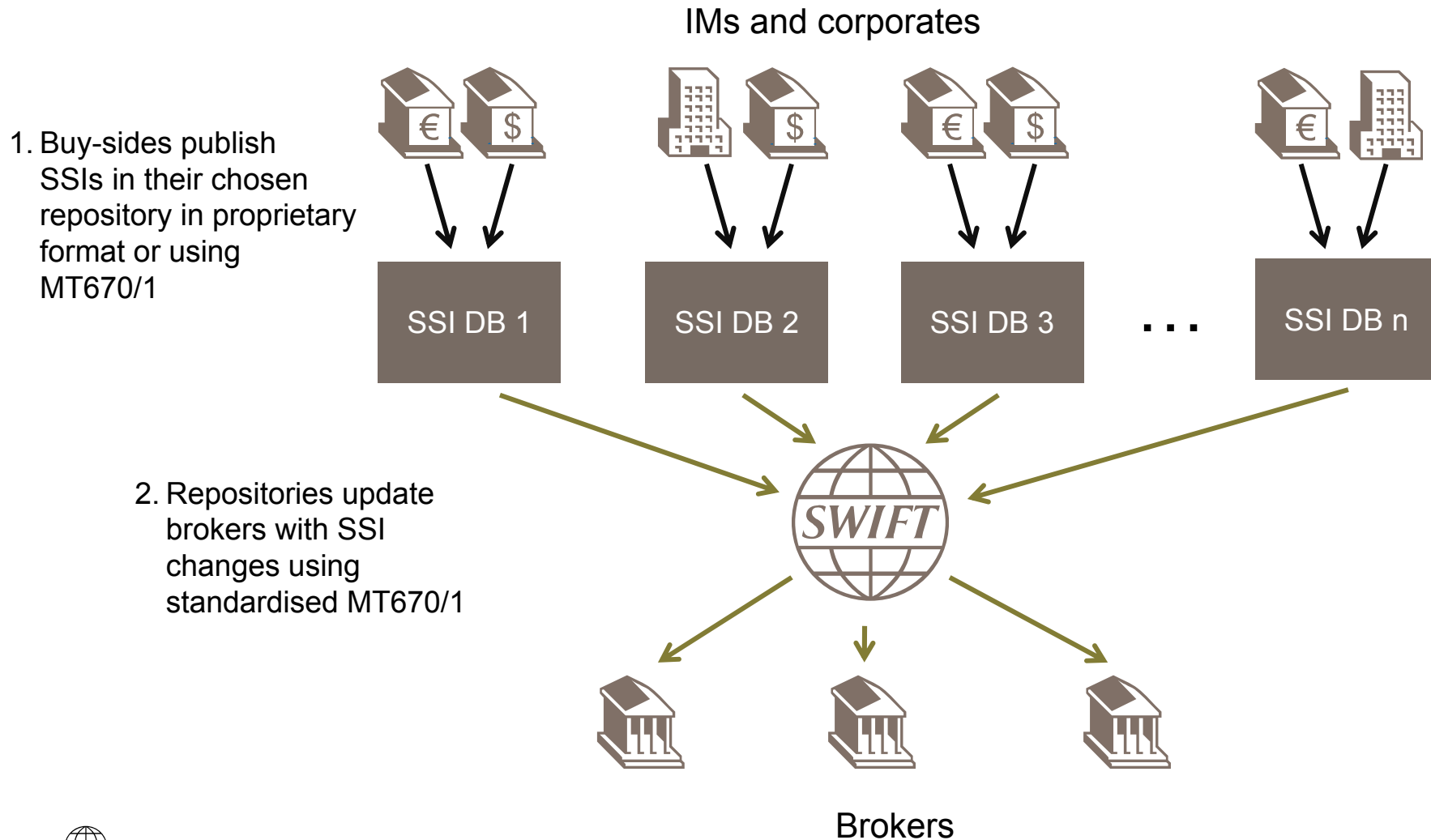


Legend

-  Broker C sends SSI broadcast message (one to all)
-  Custodian notifies IM of SSI update (one to one)
-  IM distributes SSI update to Brokers A and D (one to list)



Standardising repository communications



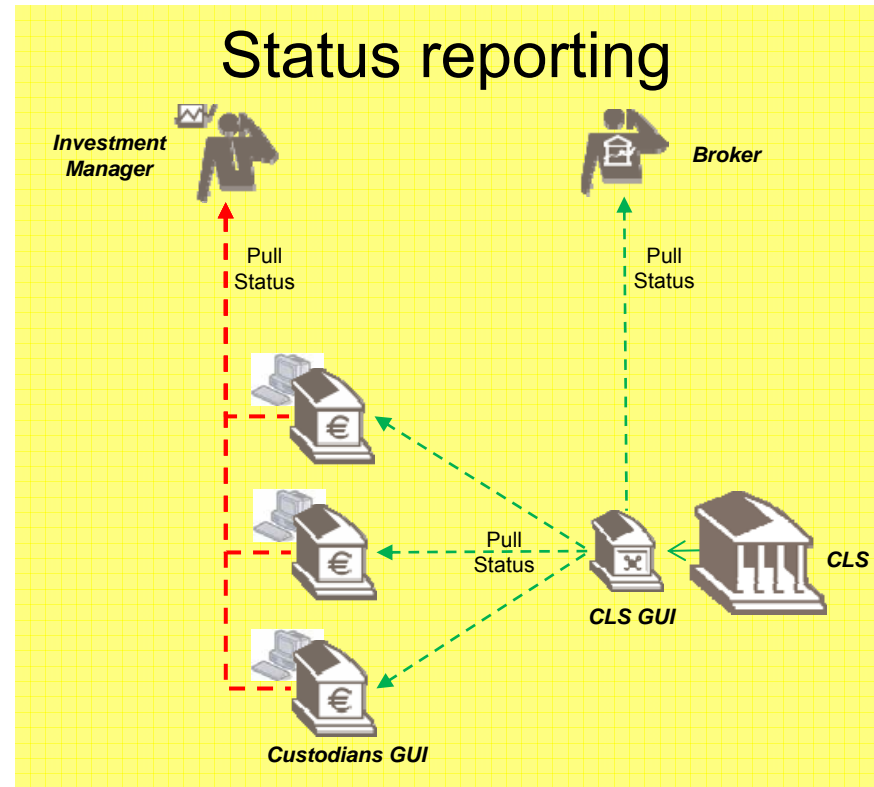
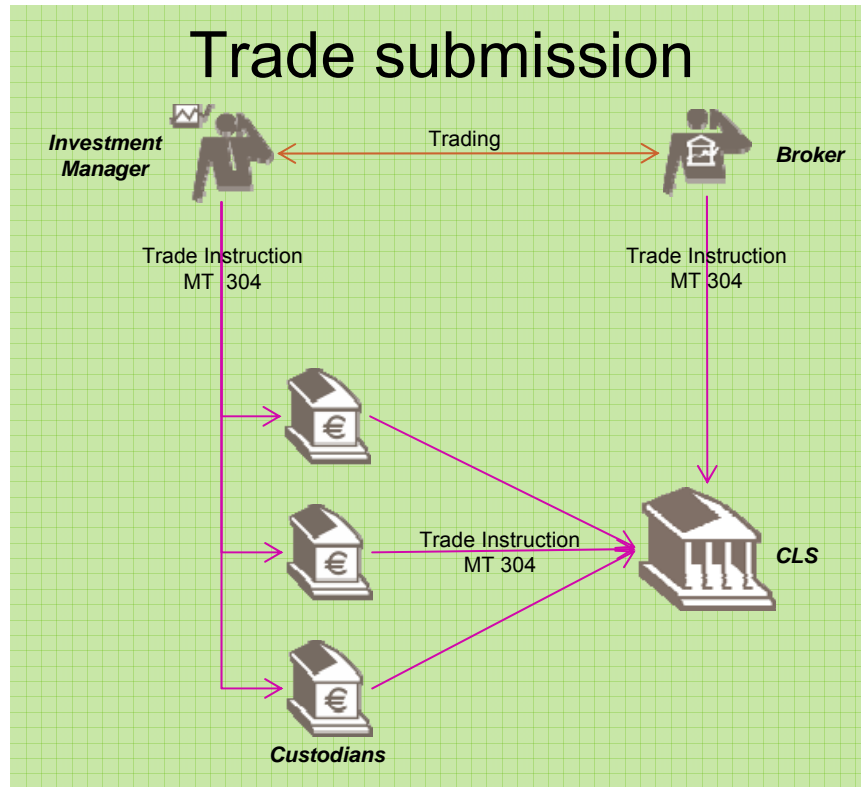


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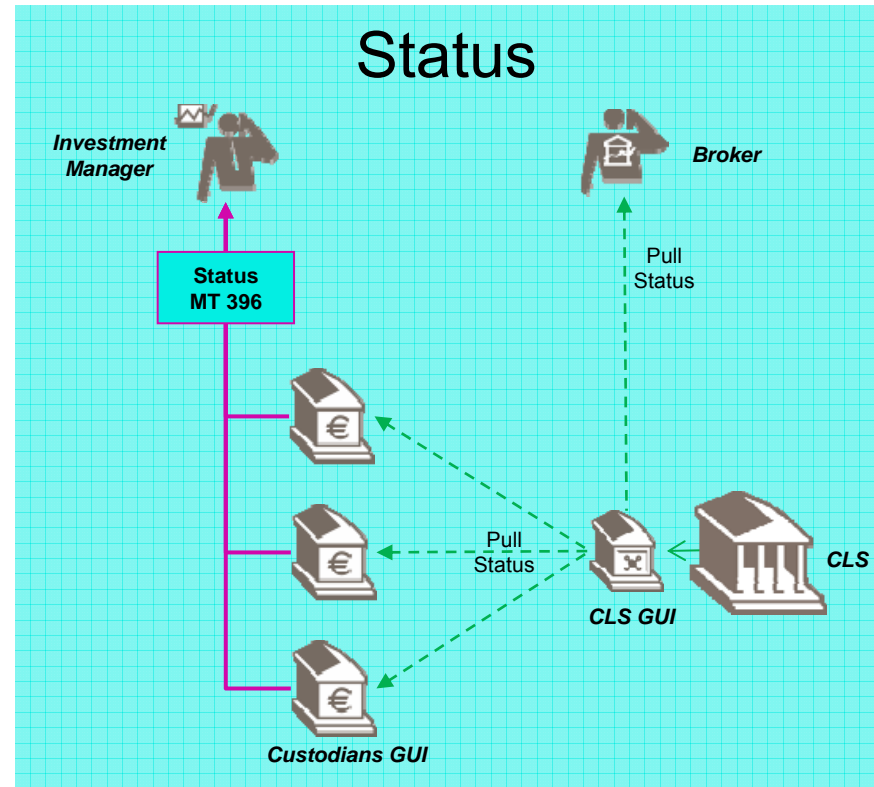
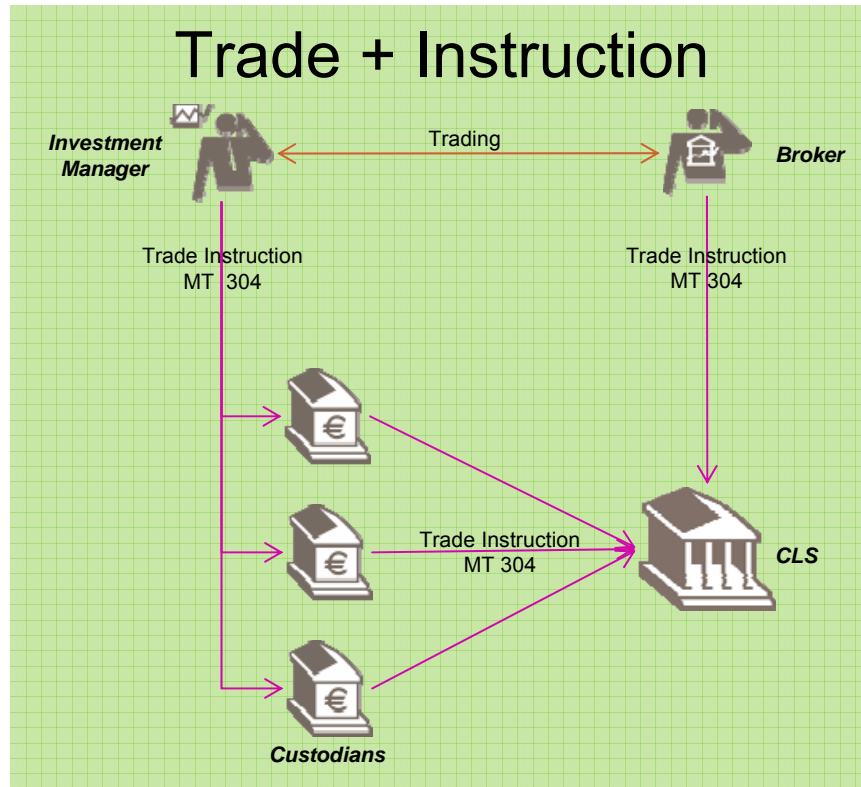


IMI CLS submission and reporting – Today



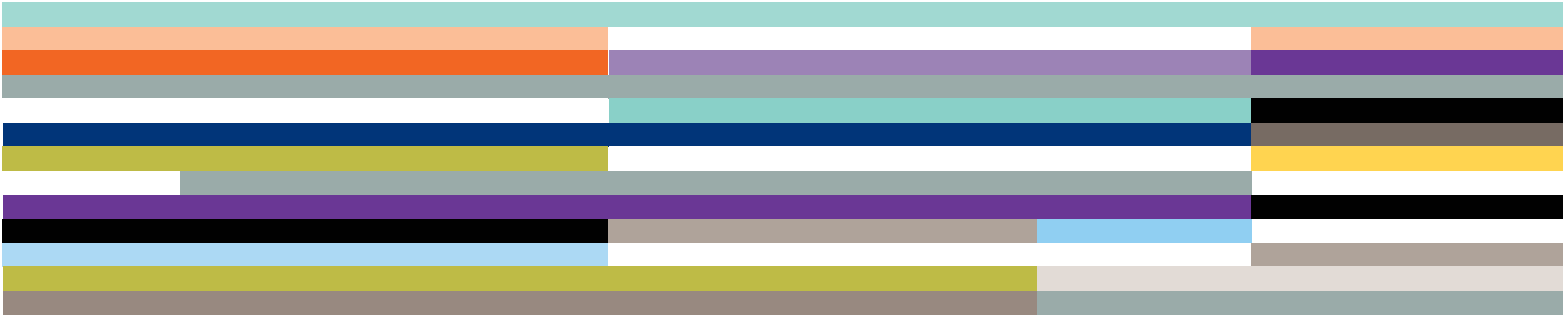
IMs have requested consistent status reporting from their Custodians

Standardised industry Solution – MT 396



**Custodians send MT 396 to IMIs.
Solution already in use today. SWIFT working with industry to define standard usage for MT396.**





Thank you

