SWIFT Update

ECB Operations Managers Group

June 2019
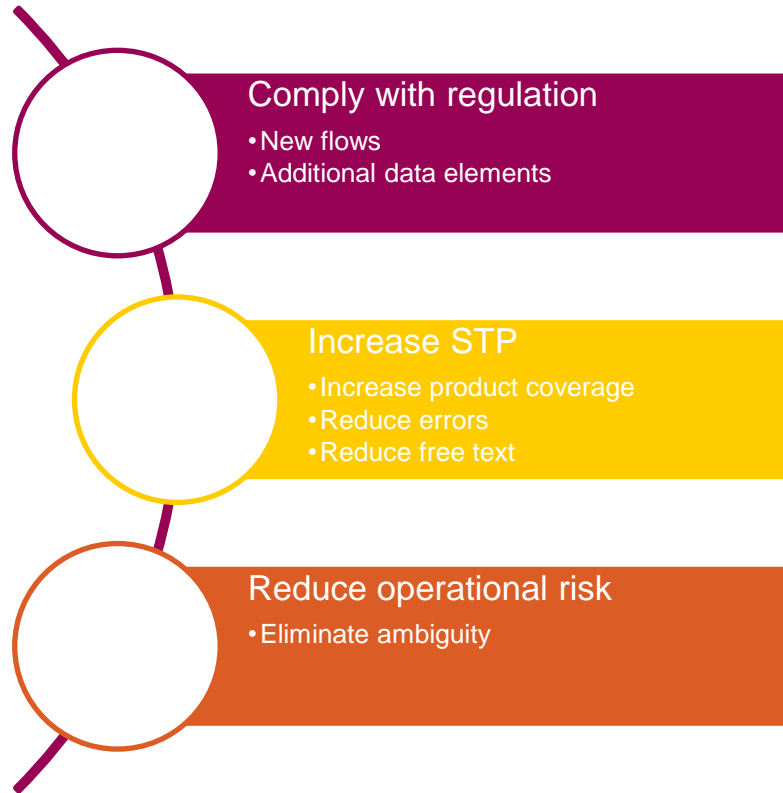
— **Treasury standards evolution**

— **SR 2019 changes**

— **Possible future changes**

— **GPI for FX**

Treasury markets - standards evolution

Market needs constantly evolving

Comply with regulation
- New flows
- Additional data elements

Increase STP
- Increase product coverage
- Reduce errors
- Reduce free text
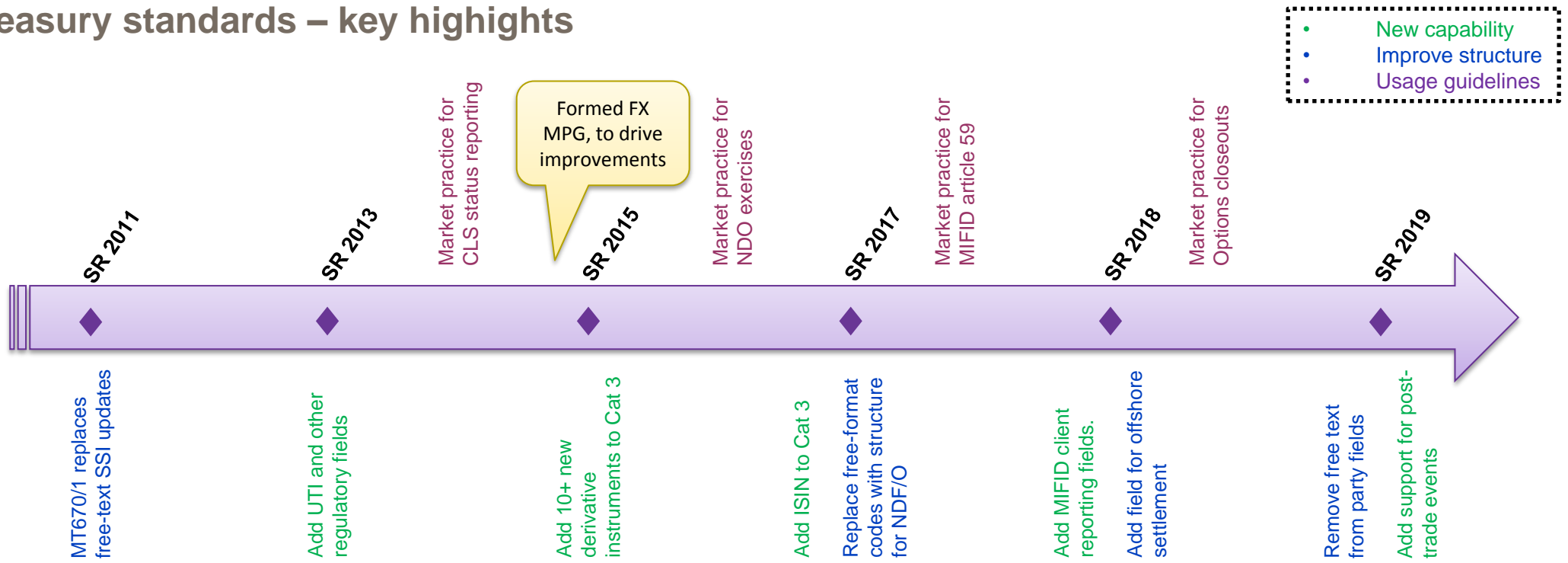
Reduce operational risk
- Eliminate ambiguity

- Community together with SWIFT Standards need to drive the MT change agenda.

- Must look 2+ years ahead.

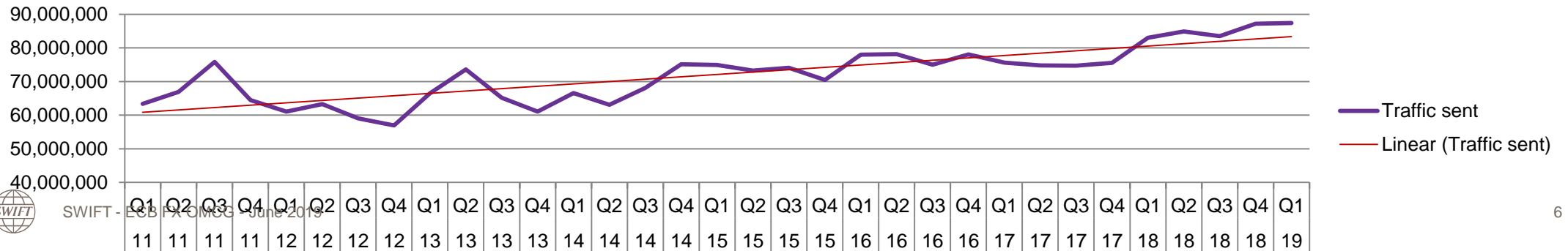- Industry collaboration in standards process key.

Annual Release Cycle

- **Not just 'bug fixes' and 'tidy-ups'….**
- **….rather, an ongoing programme to add value to messages:**
    - Additional instrument coverage
    - New use cases
    - Improved STP
- **Individual country change-request submissions**
- **Also SWIFT-led FX Market Practice Group**
    - Tier 1 dealers (Citi, UBS, Deutsche, Barclays, JPM, RBS, GS, HSBC etc.) and buy-side
    - Much collaboration with industry bodies AFME Global FX Division, ISITC US and ISDA
- **Associated development of message usage guidelines**
    - Aids customer implementation
    - Supports consistent global usage
    - Improves usage quality

Treasury standards – key highights

Legend:
- New capability (green)
- Improve structure (blue)
- Usage guidelines (purple)

Timeline markers (top):
- SR 2011
- SR 2013
- Market practice for CLS status reporting
- Formed FX MPG, to drive improvements
- SR 2015
- Market practice for NDO exercises
- SR 2017
- Market practice for MIFID article 59
- SR 2018
- Market practice for Options closeouts
- SR 2019

Timeline markers (bottom):
- MT670/1 replaces free-text SSI updates
- Add UTI and other regulatory fields
- Add 10+ new derivative instruments to Cat 3
- Add ISIN to Cat 3
- Replace free-format codes with structure for NDF/O
- Add MIFID client reporting fields.
- Add field for offshore settlement
- Remove free text from party fields
- Add support for post-trade events

Treasury message volumes

Chart legend: Traffic sent (purple line); Linear (Traffic sent) (red line)

Y-axis: 40,000,000 to 90,000,000

X-axis: Q1 11, Q2 11, Q3 11, Q4 11, Q1 12, Q2 12, Q3 12, Q4 12, Q1 13, Q2 13, Q3 13, Q4 13, Q1 14, Q2 14, Q3 14, Q4 14, Q1 15, Q2 15, Q3 15, Q4 15, Q1 16, Q2 16, Q3 16, Q4 16, Q1 17, Q2 17, Q3 17, Q4 17, Q1 18, Q2 18, Q3 18, Q4 18, Q1 19

Overview of SR 2019 changes

High-level description of SR 2019 changes

- ## Changes approved in 2017, for deferred implementation
  - Streamlining party fields in MT 300 & MT 304
    - 82a, 83a, 87a, 53a, 56a, 57a, 58a
    - Remove free format 'D' option
    - Enhance structure of 'J' option

- ## Changes approved in 2018
  - Replace Russia jurisdiction code `FFMS` with `BankOfRussia`
  - Add codes to MT 304 to identify a message as a *copy*
    - For example, if sent to a fund administrator
  - Add support to MT 300 for post-trade events
    - Full and partial:
      - early-delivery
      - early termination
      - roll-over

Your messages will be NAKed if not compliant with SR 2019

From November 2019 onwards, you will no longer be able to send free format data in **key party fields** in the MT 300 and MT 304. This includes:

- **Trade parties** – the two parties who executed the trade, as well as the underlying fund, if one exists.

- **Settlement parties** – the institutions who will be part of the settlement process for the trade, including correspondent banks, intermediaries and the underlying beneficiary.

Party fields

From November 2019, **option D** is removed from MT 300 and MT 304. If you continue to use it, your messages will be **NAKed** by the network.

Note that these changes will include a specific mandatory impact on settlement fields for Non-Deliverable Forwards (NDF) and other netted trades.
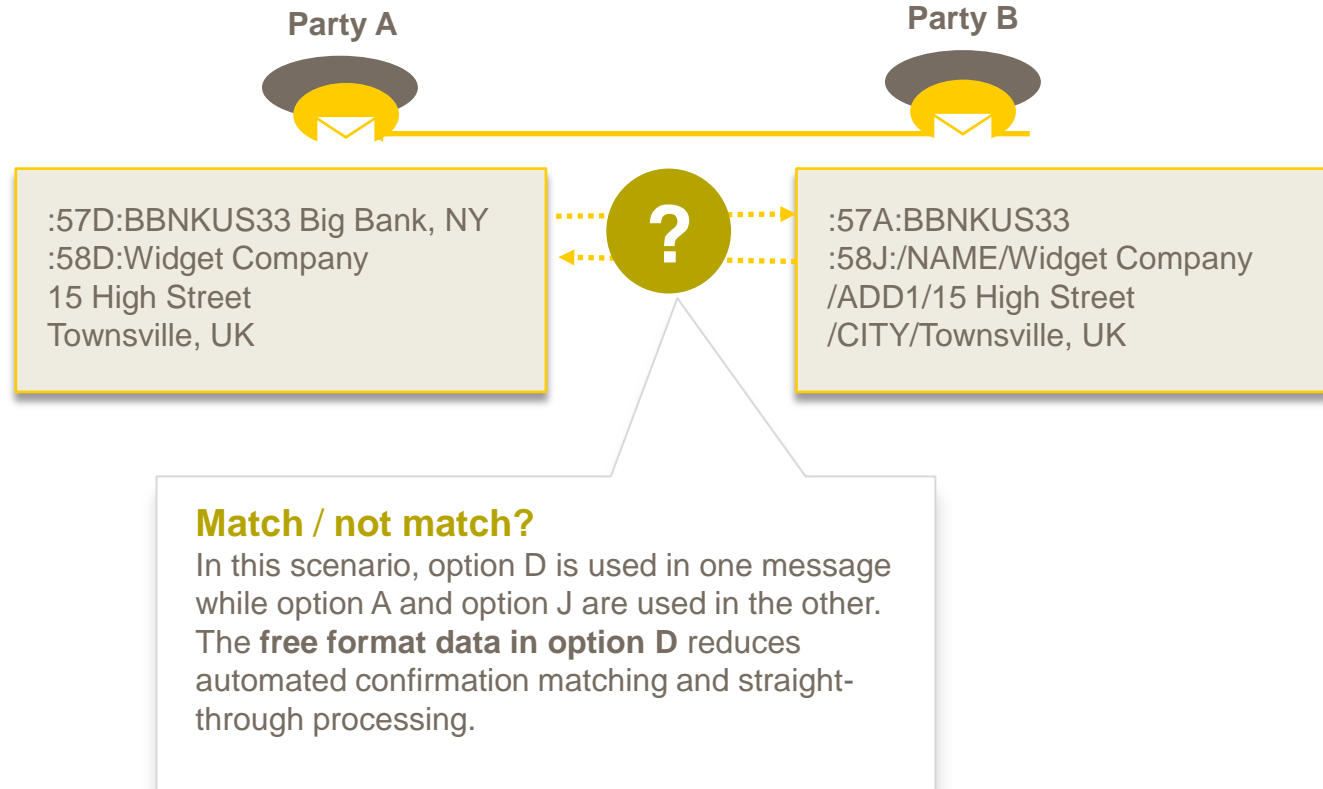
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Why are the changes being implemented?

Free format data reduces automated confirmation matching and straight-through processing, leading to operational risk and costs.

The existing standards support different ways of carrying the same business data, which is inefficient and leads to errors.

The MT 300 and 304 are closely related and are high-volume messages, so improvements in straight-through processing rates are valuable.
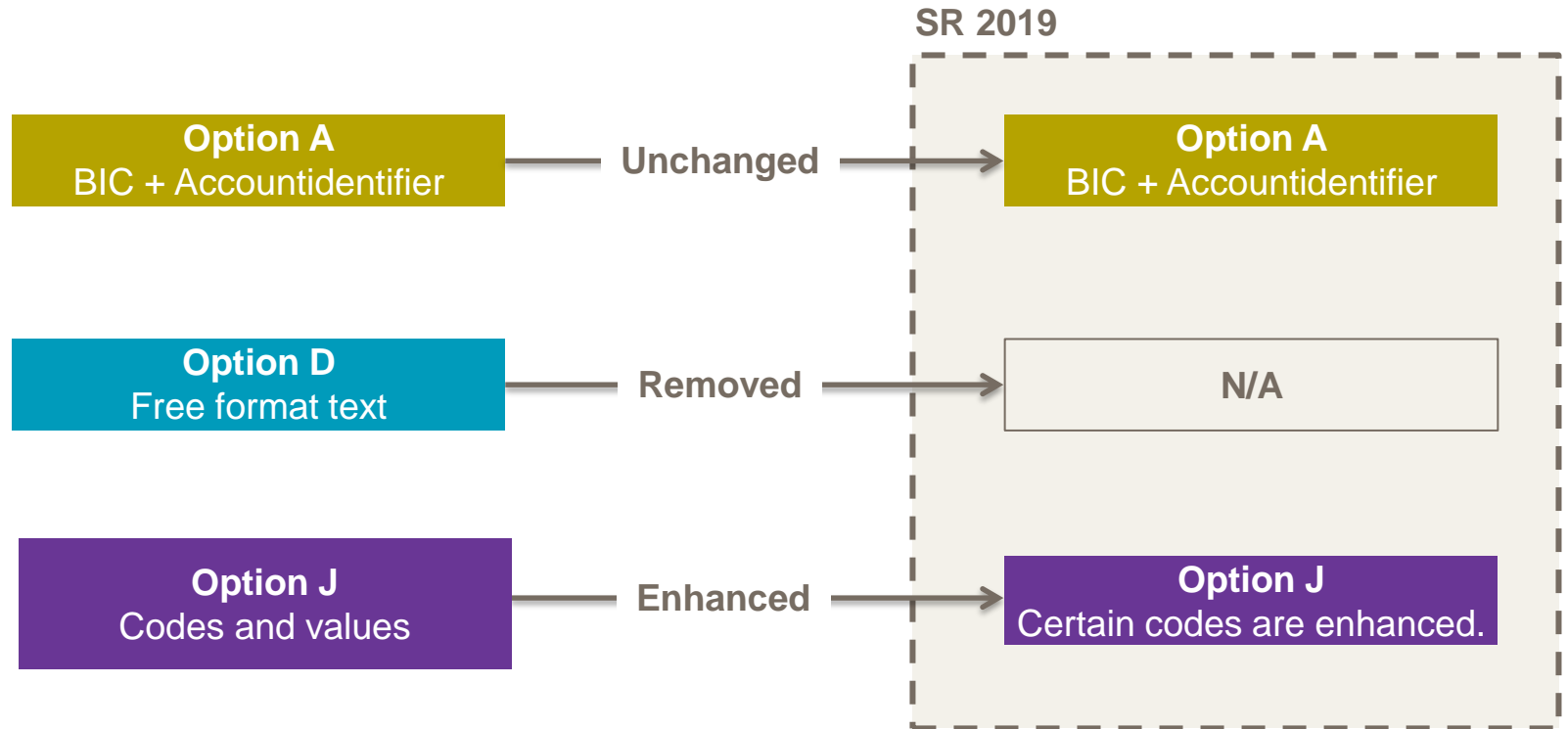
Party A

Party B

:57D:BBNKUS33 Big Bank, NY
:58D:Widget Company
15 High Street
Townsville, UK

?

:57A:BBNKUS33
:58J:/NAME/Widget Company
/ADD1/15 High Street
/CITY/Townsville, UK

Match / not match?
In this scenario, option D is used in one message while option A and option J are used in the other. The **free format data in option D** reduces automated confirmation matching and straight-through processing.

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High level summary of the changes

Each of the party fields currently has 3 format options:

1. A - for example
    `:57A:BARCGB22`

2. D – for example
    `:58D:Barclays`
    `London`

3. J - for example
    `:58J:/ABIC/BARCGB22`
    `/NAME/Barclays`
    `/CITY/London`

From SR 2019, Option D is being removed and J changed.

SR 2019

Option A
BIC + Accountidentifier

Unchanged →

Option A
BIC + Accountidentifier

Option D
Free format text

Removed →

N/A

Option J
Codes and values

Enhanced →

Option J
Certain codes are enhanced.

Further information

- Refer to SR 2019 Standards Release Guide for full details of the change.
    - https://www2.swift.com/knowledgecentre/publications/srg_20181221/2.0

- Online training is available in SWIFTSmart
    - http://www.swift.com/swiftsmart
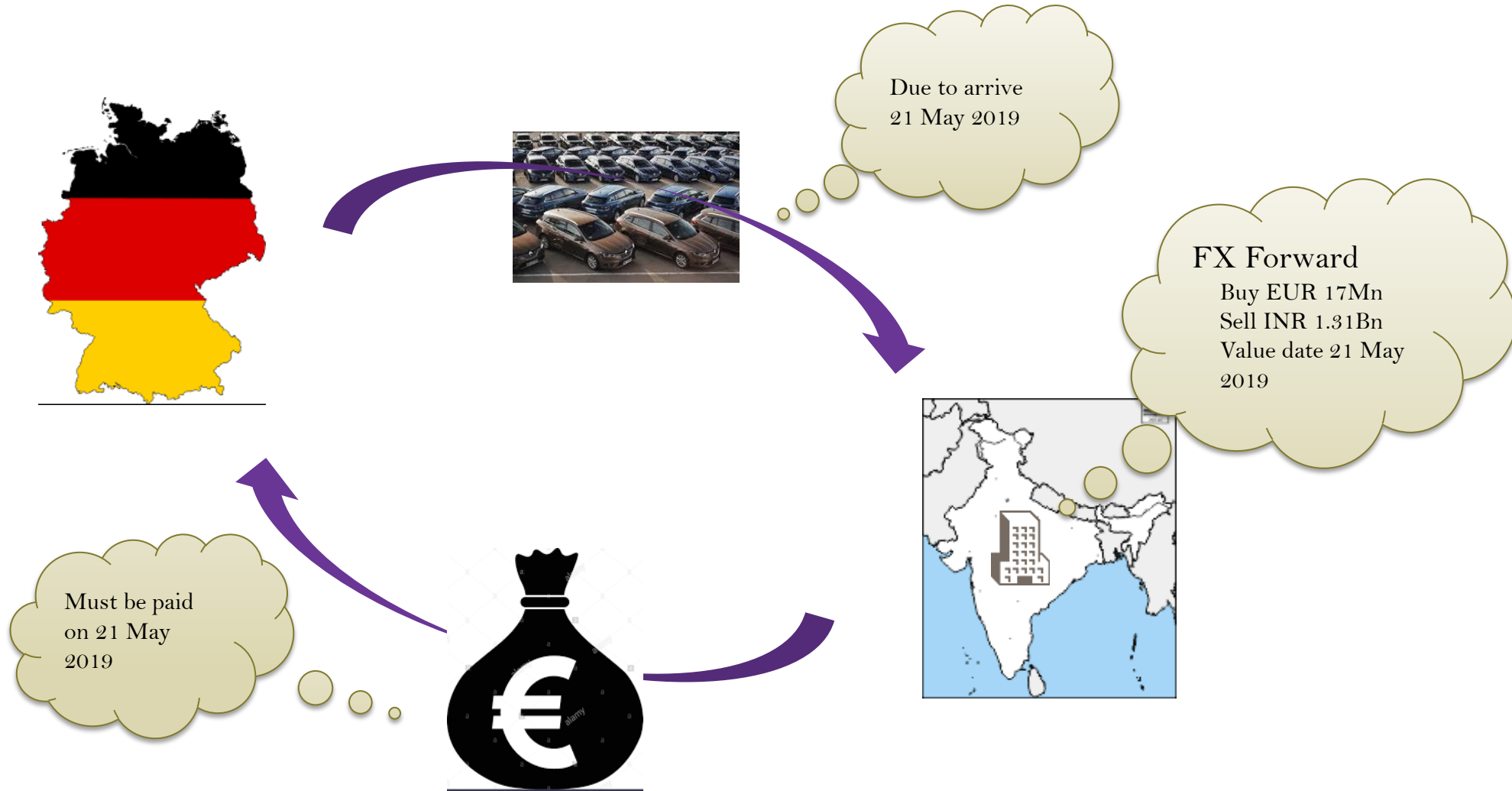   - Search for "*Party Fields Tightening (SR 2019)*"

Post-trade events
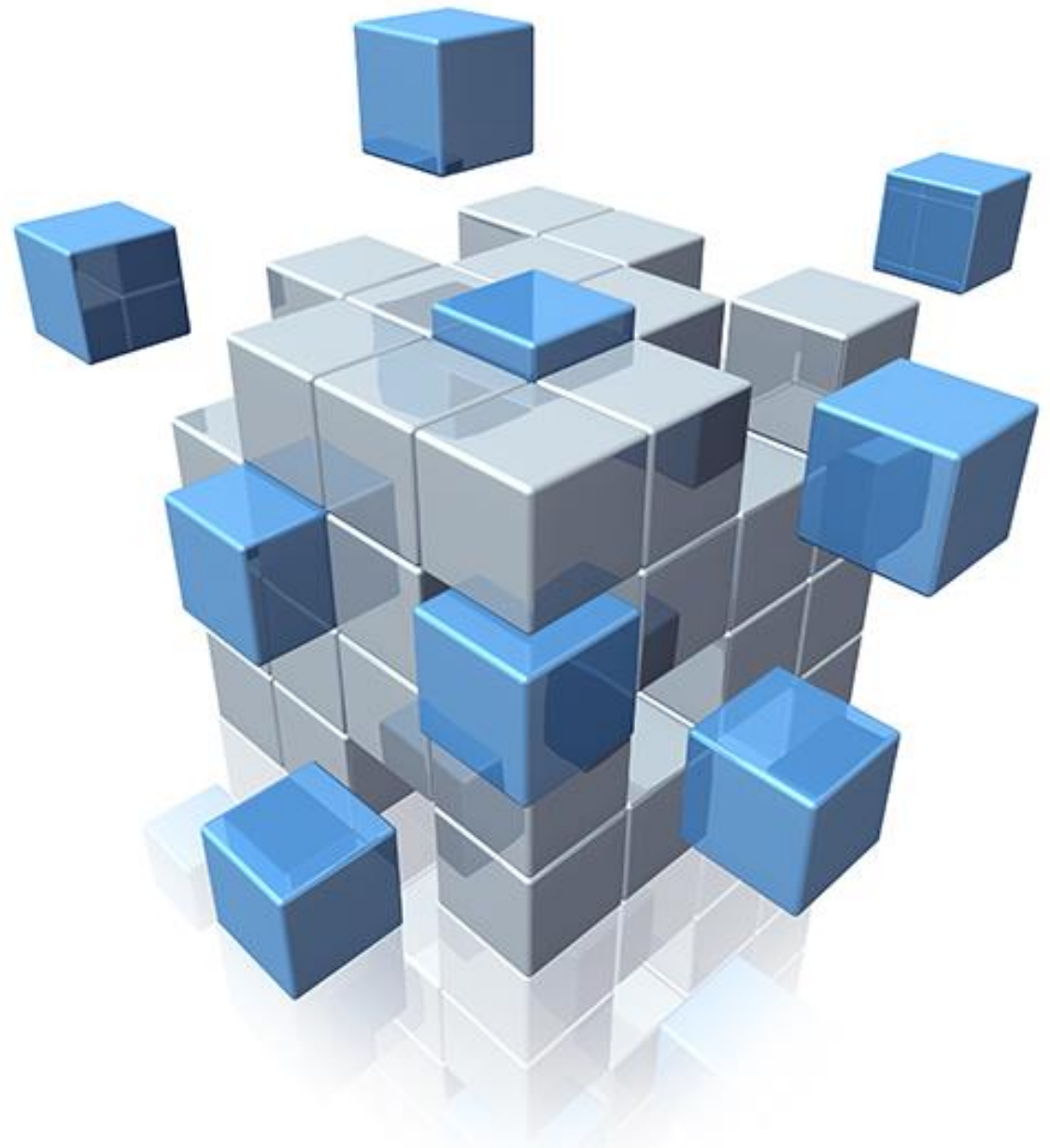
Rationale for change

- **MT 300 is industry standard for confirmation of new FX trades**
  - Sport, forward, NDF & Swaps
  - Also for options exercises

- **In some jurisdictions, FX is not allowed to be freely traded.**
- **E.g. Forwards must be linked to an underlying commercial obligation**
  - For example an import or export of goods
- **If that obligation changes, then the FX forward must change likewise**
  - The amount may increase or decrease
  - The settlement date may be brought forward or pushed back
  - The trade may be cancelled altogether

- **This type of post-trade event is typically processed manually**

Example corporate FX linked to trade

Due to arrive 21 May 2019

FX Forward
Buy EUR 17Mn
Sell INR 1.31Bn
Value date 21 May 2019

Must be paid on 21 May 2019

If delivery should change…..

Cars arrive early	Cars arrive late	Order cancelled
• Early settlement of FX deal • Partial, if only some arrive early	• Rollover of FX deal • Partial, if only some arrive late	• Early termination of FX deal • Partial, if only part of order is cancelled

Background to SR 2019 Change request

- **Indian community developed market practice using codes in MT 300 free format fields**
- **Hong Kong community saw opportunity for wider application across Asia**
  - Submitted change request in 2018 to add new Post-Trade-Events sequence to MT 300
  - Approved by community
  - Will be implemented in MT 300 as part of standards release in Nov 2019
- **Global market practice guidelines to be developed**

**Automate business process that is currently manual.
Bring efficiency increased efficiency to Asian markets**

Objective of the change

Standardise the reusable aspects of the SWIFT India MT 300 MPG.

Of particular interest in several Asian economies.

| **Optional Sequence F Post-Trade Events**			
M	15F	New Sequence	Empty field
M	21H	Event Type and Reference	4!c/16x
O	21F	Underlying Liability Reference	16x
O	30F	Profit and Loss Settlement Date	8!n
O	32H	Profit and Loss Settlement Amount	[N]3!a15d
O	33E	Outstanding Settlement Amount	3!a15d
End of Sequence F Post-Trade Events			

Usage guidelines
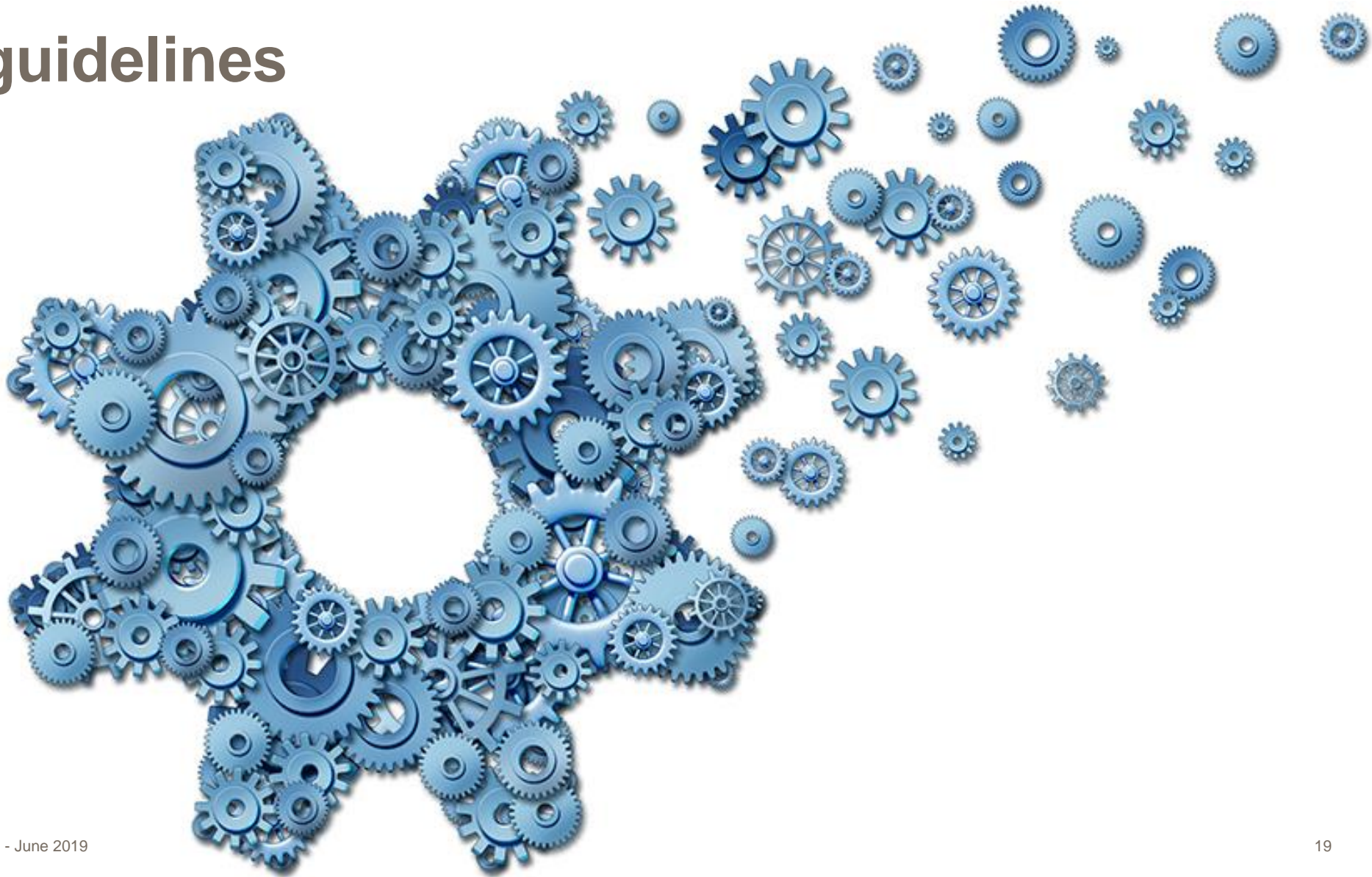
Updated usage guidelines – Published in 2018

- **The Foreign Exchange, Money Markets and Derivatives - Message Usage Guidelines have been extended to describe message usage for options close-outs**
    - Full and partial close-outs
    - MT 305 and 306
    - Published as part of the UHB
    - https://www2.swift.com/uhbonline/books/public/en_uk/us3u_20180720/index.htm
- **The MiFID II Delegated Act Article 59 usage guidelines for treasury messages have been updated for SR 2018 to account for new field 34C (see earlier)**
    - Available from Standards Market Practice page on swift.com
    - https://www.swift.com/resource/mifid-ii-delegated-act-article-59-mt-2018
- **The Offshore CNY guidelines for SWIFT MT and 15022 messages have been updated to reflect new field 39M**
    - Available from https://www.swift.com/standards/standards-resources?category=7056
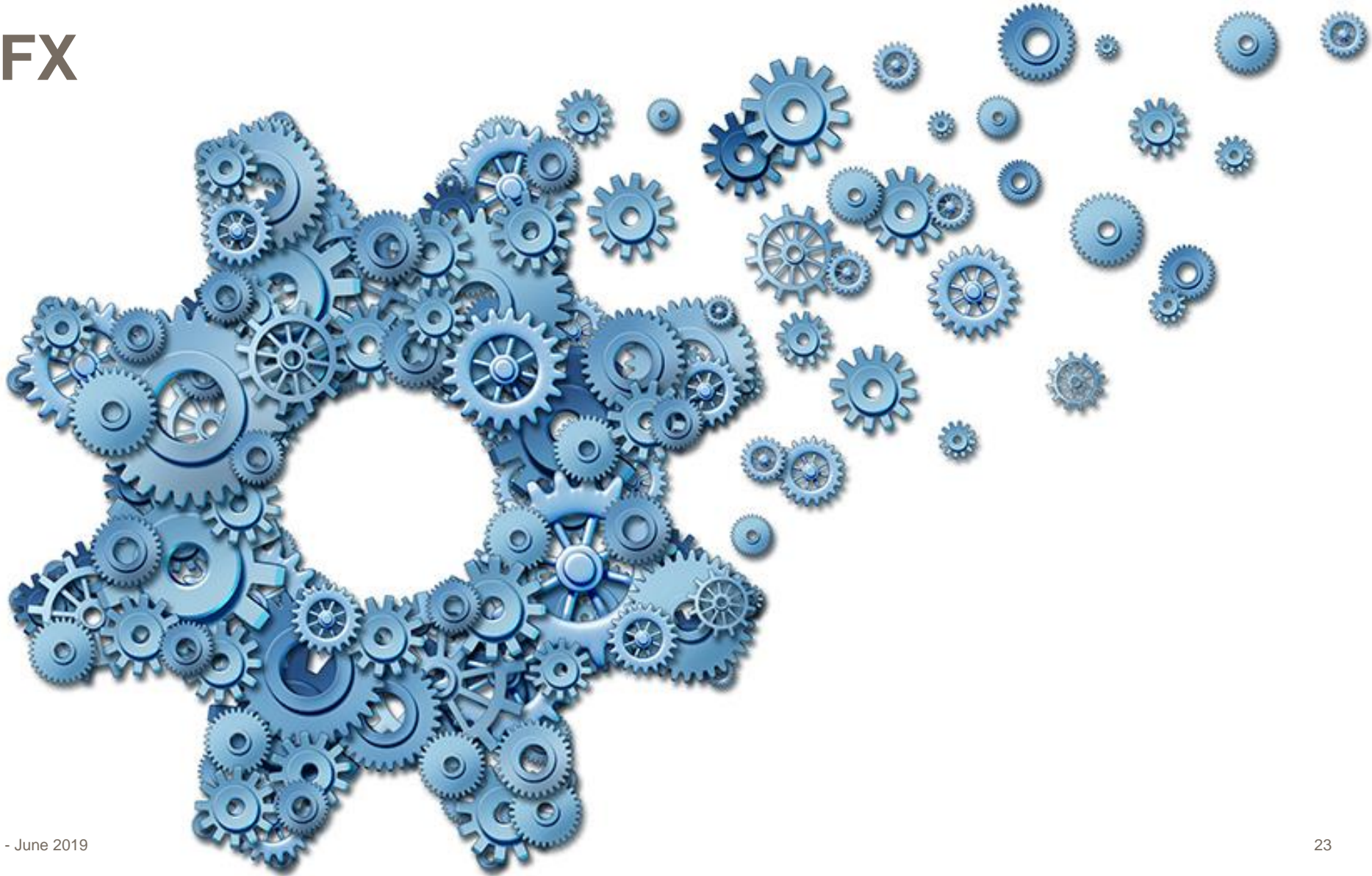
Possible future CRs
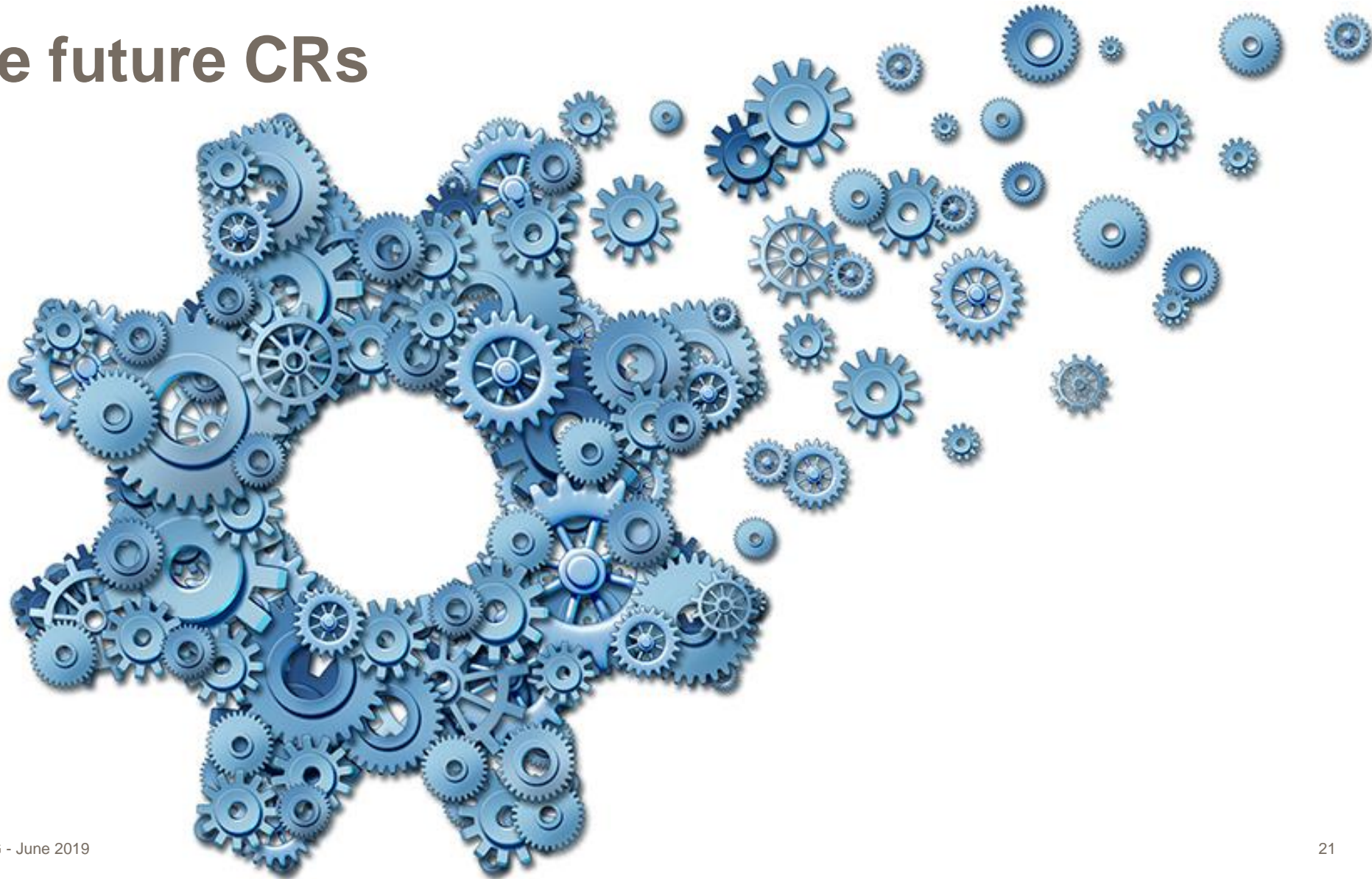
Discussion areas for future enhancements

- **Extend party field tightening to MT 305, 306, 600, 601**
- **GPI for FX (more later)**
- **Others?**

GPI for FX

SWIFT GPI - unparalleled growth in adoption, traffic and corridors

Very large community

450+
banks committed to implement,
60 of top 60 banks signed

200+
countries covered

80+%
SWIFT cross-border payments
represented

Millions live payments

127
banks live
35 top 50 banks

1100+
country corridors

170+Mio
payments sent as gpi since go live -
+1M payments/day

50+%
cross-border MT103 sent
as gpi

Delivering real value

- Over 50% of SWIFT gpi payments are credited to end beneficiaries within 30 minutes
- More than 300 billion USD are being sent daily via gpi
- Banks are saving costs thanks to quicker investigations handling and a significantly reduced number of payment enquiries
- Positive reactions from corporates

Key features:
The SWIFT gpi Tracker

Function
End-to-end payments tracking database to monitor progress of a gpi payment

Benefits
Allowing to **track a payment's path in real time,** obtain **transparency on deducts** and **confirmation that payment was credited**

Availability
MT 199 / API: Today

"One-glance" status overview

Track path, in real time

Details of banks along the chain

Transparency of total fees and time

Unique, end-end tracking number

- Central payments database, hosted at SWIFT

- Updated via MT199 or API

- Data consumption via GUI, via MT199 (push) or via API (pull)

Where GPI can bring value to FX Industry

- **Managing counterparty / credit risk**

  - Ability to release payment when incoming funds are credited

- **Advance warning of market stress**

- **'Real time' monitoring of Nostro account balance**

  - Improving liquidity management

- **Improving Operational efficiency**

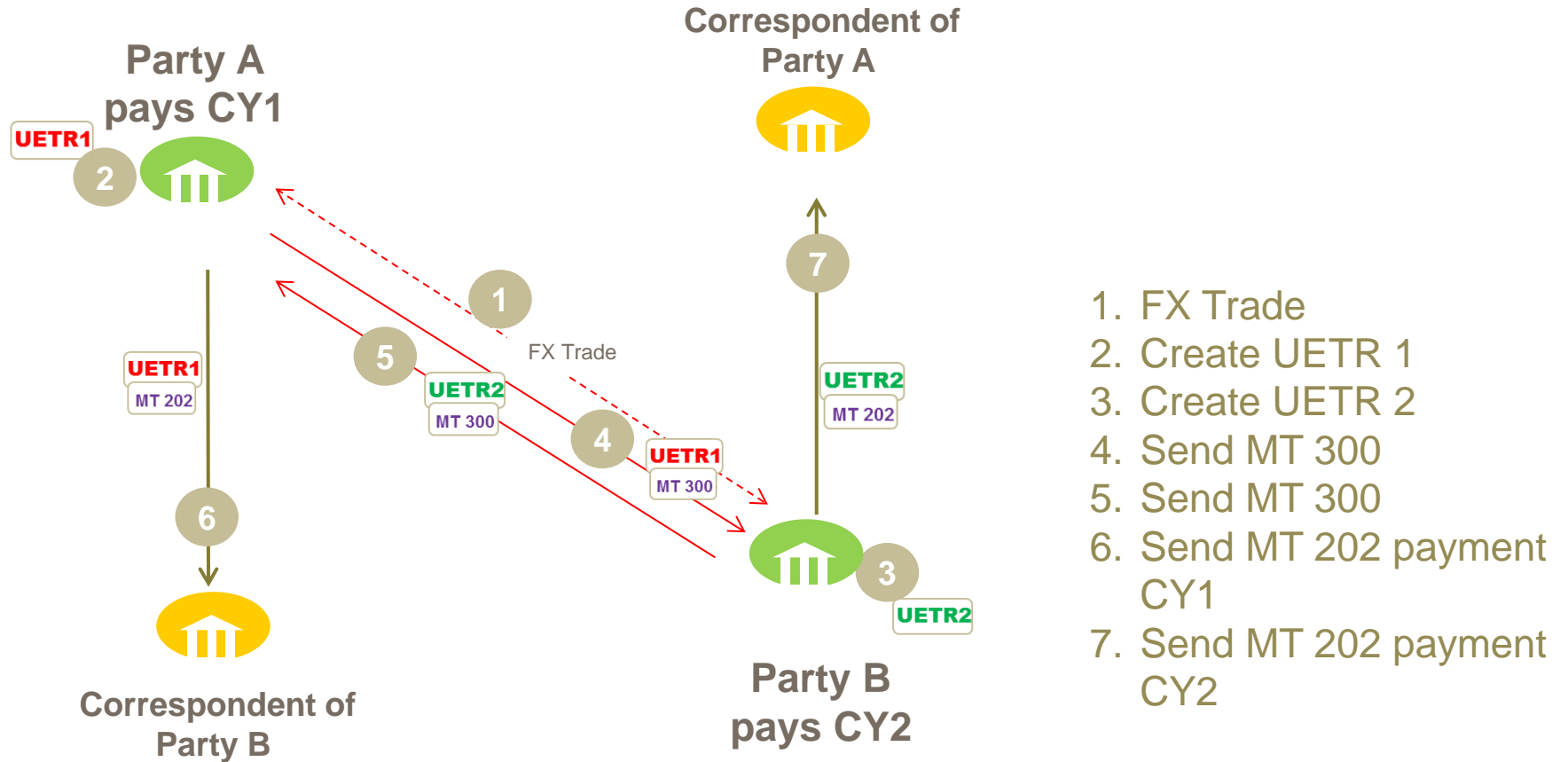- **'Real time' exception management of settlement discrepancies**

Overall concept – GPI for FX

- **To link the underlying FX Trade to the outgoing MT 202 payment leg used in bi-lateral settlement.**
  - This requires the UETR of the outgoing payment to be associated by a bank's internal systems to the originating FX trade

- **Each party needs to know when the incoming MT 202 payment related to the FX trade is credited to their account**
  - In order to maximise the benefits of the GPI Tracker this means that each party to the FX Trade needs to inform the other party of the UETR they will be using

- **Important to also support the netting of FX Trades into a single payment**
  - The single netted payment needs to be linked back to the underlying FX Trades by both parties

Potential solution
Exchange UETRs in MT300 headers and use to query GPI Tracker

Party A pays CY1

Correspondent of Party A

Correspondent of Party B

Party B pays CY2

UETR1
2

UETR1
MT 202

6

5
UETR2
MT 300

FX Trade

1

4
UETR1
MT 300

7

UETR2
MT 202

3
UETR2

1. FX Trade
2. Create UETR 1
3. Create UETR 2
4. Send MT 300
5. Send MT 300
6. Send MT 202 payment CY1
7. Send MT 202 payment CY2

Note: To include an UETR in the MT300 needs to be approved as part of the SWIFT annual Standards Release

Objectives of FX industry consultation:

- **To investigate how best the FX industry can benefit from the GPI (the global payments initiative) as follows:**
    - Agree on where GPI can bring value
    - Agree on problem statements / where are the issues in FX payments
    - Evaluate potential solutions to integrate GPI into FX payment workflows
    - Investigate FX payment use cases and determine which solution would be best to implement

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Thank You