



SWIFT Update

ECB Operations Managers Group

9 March 2017

Topics to discuss

SR 2017 update

SR2018 and beyond

Questions



SR 2017 update

| Message type | Description of change |
|---|--|
| MT 300, MT 304 and MT 305 | Addition of new fields to be used for non-deliverable trades (NDF and NDO). These fields replace the existing use of codes in free format fields and from SR 2017 messages containing the codes will be NAK'd. |
| MT 300 and MT 304 | Addition of an optional field for use in the context of market infrastructures, to allow the sender to specify the session or service in which the trade should be processed. |
| MT 305 | Addition of text to clarify that for a non-deliverable option the valuation date is the same as the expiry date. |
| MT 300, 304, 305, 306, 340, 341, 360, 361, 600, 601 | addition of an optional field in which an ISIN can be specified. |
| MT 300, 304, 305, 306, 340, 341, 360, 361, 600, 601 | addition of new reporting jurisdiction codes for Canadian provinces. |
| MT 670 & 671 | addition of codes to allow: <ul style="list-style-type: none">• An SSI to be marked as the default for a currency• An SSI to be deleted |



Why are NDF and NDO messages changing?

In the 2016-style MT 300, MT304, and MT 305, NDF parameters such as valuation date and rate source, are hosted in fields that:

- Have a free format syntax
- Have other functions.

This approach limits the network validation, usage discipline as well as STP processing rate. Therefore, in the November 2017 Standards Release, SWIFT is making changes to the three MTs to improve processing.

Limited network validation

Insufficient NDF code usage discipline

Limited STP for NDF transactions



What is changing in Standards Release (SR) 2017?

In SR 2017, a set of NDF-related fields are introduced, which all have a strict syntax and a single function. They replace the codes like /VALD/, /SETC/ etc. that were used before.

This replacement of free-format fields containing NDF-related codes, with dedicated fields having a strict syntax, aims to bring strict validation, improved usage discipline and increased STP rate to NDF-related MTs.

Strict network validation

Improved NDF code usage discipline

Increased STP for NDF transactions



NDFs - why is it imperative to migrate?

Mandatory changes

The new MT 300, 304, and 305 go live on 19 Nov 2017. Changes are mandatory for NDFs and NDOs.

No backward compatibility

Existing NDF formats/codes will be rejected. Attempts to confirm an NDF using the old codes will be rejected.

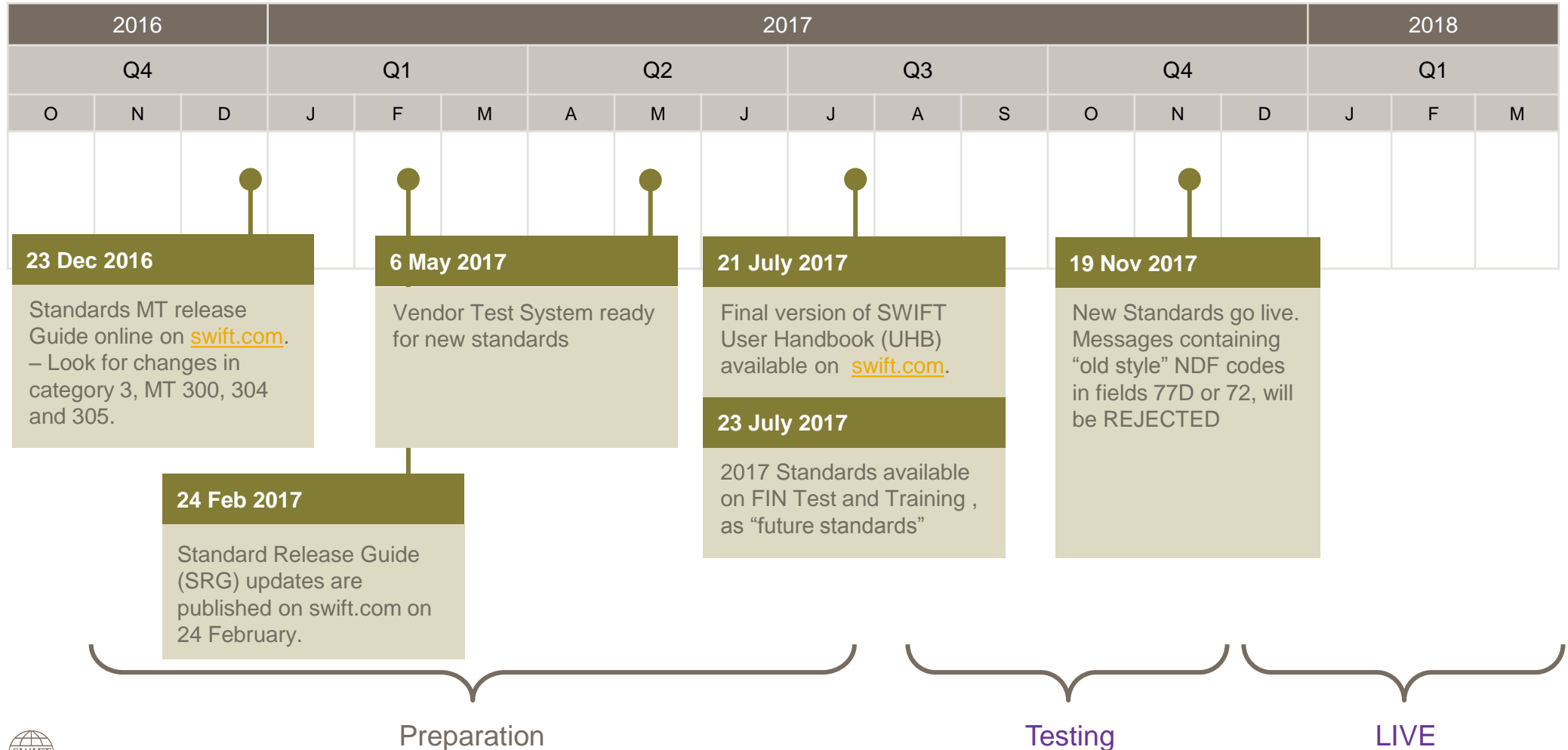
Communication issues

Your counterparties will send messages in the new format.

Migration is necessary to interpret inbound messages and send out correct outbound messages.



Timeline of the changes



SR 2017 NDF/O changes summary

| Aspect of NDF/NDO | MT | Old Style | New Style – SR 2017 |
|--|-----|---|--|
| Non-deliverable flag | 300 | /VALD/ in 77D (for opening) /FIX/ in 77D (for valuation) | 17F = Y |
| | 305 | /VALD/ in 72 | 17F = Y |
| | 304 | /VALD/ in 72 | 94A = ANDF |
| Valuation date | 300 | Date following /VALD/ in 77D | 30U |
| | 305 | /VALD/ in 72 | 31G, subfield 1 |
| | 304 | Date following /VALD/ in 72 | 30U |
| Opening or valuation (fixing)? | 300 | /VALD/ in 77D for Opening, /FIX/ in 77D for valuation | 17O = Y |
| | 305 | 305 for Option, 300 for exercising, with EXOP in field 22A | 305 for Option, 300 for exercise, with EXOP in field 22A |
| | 304 | /VALD/ in 72 for Opening, /FIX/ in 72 for valuation | 17O = Y |
| Rate Source | 300 | /SRCE/ in 77D | 14S |
| | 305 | 14S | 14S |
| | 304 | /SRCE/ in 72 | 14S |
| Settlement Currency | 300 | /SETC/ in 77D | 32E |
| | 305 | /SETC/ in 72 | 32E |
| | 304 | /SETC/ in 72 | 32E |
| Reference to confirmation for opening | 300 | /FIX/ + sender's reference of opening in 77D | 21A |
| | 305 | n.a. | n.a. |
| | 304 | /FIX/ + sender's reference of opening in 72 | 21A |



Notes on field 14S

In the **rate source** subfield in 14S:

1. In cases where EMTA templates are used, one must use **:14S:EMT00** and leave the subfields for Time and Location (that is, time and time-zone) blank.
2. In all other cases, a rate source mnemonic must be provided together with time & location
3. For currency crosses, the rate sources must be provided in the following order:
 - Reference Currency Rate Source , followed by
 - Settlement Currency Rate Source

| | Party A | Party B |
|---|-----------------------------------|-----------------------------------|
| 1 | :14S:EMT00 | 14S:EMT00 |
| 2 | :14S:CHF1/1400/GBLO | :14S:CHF1/1400/GBLO |
| 3 | :14S:EMT00 :14S:GBP1/1000/USNY | :14S:EMT00 :14S:GBP1/1000/USNY |

Note both parties must use the same time & location and not e.g. 1400 GBLO with 0900 USNY

E.g. for a currency cross between BRL & GBP. The reference currency rate source is encoded as EMT00 and comes 1st



Need for outreach....

- **SWIFT has been notifying the community for over 12 months already**
- **We are in process of running educational Webinars**
- Recordings available from <https://meetswift.webex.com/meetswift/lsr.php?RCID=d2a23799f375ea42838f507b2f0ab0c2> or <https://www2.swift.com/kb/#/tip/5021561>.
- **Outreach to buy-side organisation together with AFME GFXD**
- **SWIFTSmart online training module available from mid-March**

- ***But....***
- ***...SWIFT cannot specifically target NDF senders***

All NDF users must ensure that they and their counterparties are aware and preparing for the change



Topics to discuss

SR 2017 update

SR2018 and beyond - some topics under discussion

Questions



Possible regulatory drivers

MIFIDII

- **Article 59 Reporting obligations in respect of execution of orders other than for portfolio management (Article 25(6) of Directive 2014/65/EU)**
 - *Investment firms having carried out an order on behalf of a client, other than for portfolio management, shall, in respect of that order...*
 - *send a notice to the client in a durable medium confirming execution of the order as soon as possible and no later than the first business day following execution.....*
 - Specified list of fields requires analysis

EMIR

- **RTS/ITS updates require additional fields to be reported**
 - LEI, ISIN, CFI, UPI, reference to link components of a trade
 - Might have an impact on confirmations (as did UTI)



Cat 3 Party Fields

| M | 3b | Exchange Rate | 12a |
|---|-----|-------------------------|------------|
| Mandatory Subsequence B1 Amount Bought | | | |
| M | 32B | Currency, Amount | 3!a15d |
| O | 53a | Delivery Agent | A, D, or J |
| O | 56a | Intermediary | A, D, or J |
| M | 57a | Receiving Agent | A, D, or J |
| End of Subsequence B1 Amount Bought | | | |
| Mandatory Subsequence B2 Amount Sold | | | |
| M | 33B | Currency, Amount | 3!a15d |
| O | 53a | Delivery Agent | A, D, or J |
| O | 56a | Intermediary | A, D, or J |
| M | 57a | Receiving Agent | A, D, or J |
| O | 58a | Beneficiary Institution | A, D, or J |
| End of Subsequence B2 Amount Sold | | | |



Field 57a details

23. Field 57a: Receiving Agent

FORMAT

| | | |
|----------|--------------------------------|--|
| Option A | [/1!a]/[34x] 4!a2!a2!c[3!c] | (Party Identifier) (Identifier Code) |
| Option D | [/1!a]/[34x] 4*35x | (Party Identifier) (Name and Address) |
| Option J | 5*40x | (Party Identification) |



Small sample from a set of NDF confirmations

| |
|---|
| 57,D,,UNKNOWN |
| 57,D,,NON DELIVERABLE FORWARD |
| 57,D,,UNKNOWN |
| 57,D,,NONE |
| 57,D,,BANK XXX |
| 57,D,,DO NOT SETTLE PER VIN |
| 57,D,,BANK YYY |
| 57,J,,/SSIS/ |
| 57,J,,/ABIC/UKWN /NAME/UKWN |
| 57,J,,/ABIC/XXXXGB2L /ACCT/ABCD123456 /NAME/XXXXX TRUST |
| 57,J,,/NETS/ |
| 57,D,,PLEASE AWAIT DELIVERY INSTRUCTIONS |
| 57,D,,UNKNOWN |
| 57,D,,NON DELIVERABLE FORWARD |
| 57,D,,NET |
| 57,D,,NET SETTLEMENT |
| 57,D,,XXX BANK (YYY BRANCH) ZZZ SHARED ACCOUNT |
| 57,D,,MANUAL NETTING NOSTRO TORONTO, ONTARIO |
| 57,D,,NO MOVEMENT |

These examples
are where 57A
has not been used



Consequences

- **Leads to....**
 - Poor matching rates, or
 - Lots of matching rules, or
 - No matching of SSIs
- **All of which lead to....**
 - Settlement breaks
 - Manual effort
 - Operational risk



Proposal for discussion

- **Assume that all Nostro providers have a BIC...**
- **Tighten up party fields, other than beneficiary. E.g.**
 - Allow only
 - Account Number & BIC, or
 - Small set of validated codes (NET, NDF, UNKNOWN)
 - Possibly also:
 - Make account number mandatory
 - validate account number format (e.g. IBAN where available)
- **Also consider party fields such as 82, 83 & 87**



Cat 3 Party Fields - update

- **Discussion ongoing within SWIFT FX MPG**
- **Objective:**
 - to improve usage of Cat 3 party fields, thereby reducing risk and improving matching and STP.
 - A key means of achieving this is by removing all duplicate means of incorporating data. E.g.
 - NET code in D and NETS code in J,
 - BIC in A and BIC in J,
 - CHIPS code in A and CHIPS code in J.
- **Assumptions (*to be tested*):**
 - Option A (BIC & optional account number) should remain, as this represents the majority of current usage and maps directly onto payment messages.
 - The account number in Option A should remain optional, in accordance with the standards in FIN payment messages.
 - Not all receiving agents (and possibly other intermediaries) actually have a BIC or BEI today, so BIC cannot be made mandatory.
 - Option D is worst for STP, so should be removed, with usage replaced by structured codes in option J.





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