



# FX Initiatives Update

*ECB FX Operations Managers Group*

*15 February 2011*

*Joe Halberstadt – Head of FX and Treasury Products*



# Agenda

- Netting position confirmations
- SSI distribution messages
- Other related initiatives

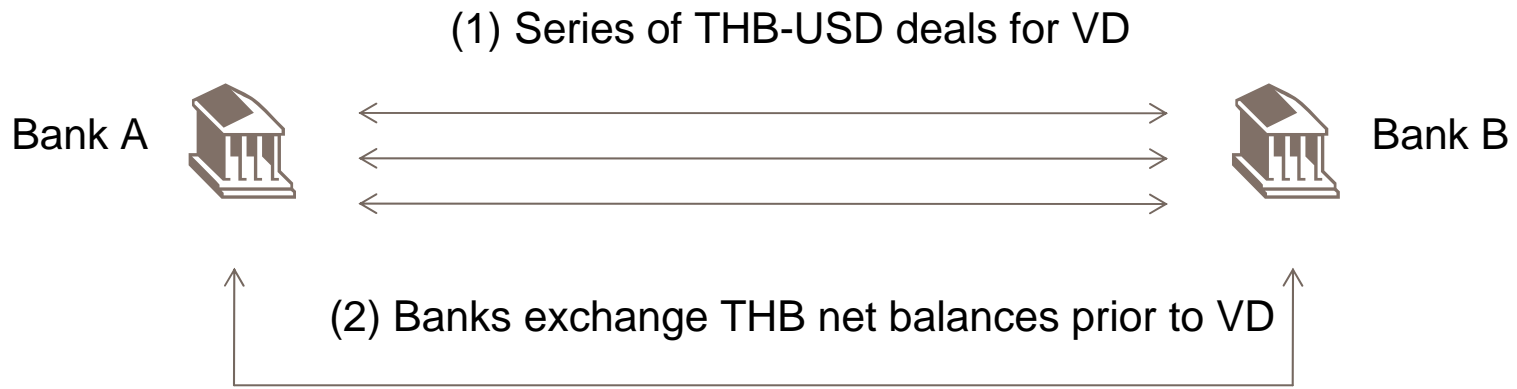


# FX Netting balances confirmation message

<b>Problem statement / opportunity</b>	Bilateral netting is the most widely used form of FX settlement after CLS. Currently, bilateral nets are agreed each day manually between counterparties which is labour intensive and error prone. There is therefore a strong desire to develop a new messaging standard to allow counterparties to agree bilateral net positions with each other on a per-currency basis.
<b>Organisation</b>	Major contribution from Citi, Credit Suisse, Goldmans, HSBC, JPM, Morgan Stanley, Rabo, RBS, SWIFT, UBS
<b>2010 deliverables</b>	<ol style="list-style-type: none"><li>1. Agreed problem statement</li><li>2. Launch standards and best-practice working group</li></ol>
<b>2011 deliverables</b>	<ol style="list-style-type: none"><li>1. Agreed messaging standards</li><li>2. Commitment to use new standards, with timelines</li><li>3. Netting Best Practice document to be agreed by OMGs</li></ol>
<b>Current status</b>	3 meetings held. Business content of new message agreed. Business case and choice of solution under review.
<b>Upcoming milestones</b>	Decision on best solution and business case – March 2011.



# Netting flows



Net balance confirmation message required to include:

- Netting reference
- Netting account
- Message purpose (New, Amend, Cancel)
- Related reference
- Currency
- Net balance
- Netting time
- Number of trades in the net
- Settlement parties & accounts
- Instruments included in net



# Possible messaging solutions

	Pros	Cons
MT300 (FX confirmation)	Widely used, contains most data	Misuse of standard. No support for several required data elements.
MT971 (Netting balance report)	Designed for netting balances	No SSI fields, netting time, etc.
MT398 (prop message)	Sub-message type can be agreed quickly.	Format not validated by network.
New FIN MT	Purpose designed message. Validated by network	Earliest would be SR2012
New ISO20022 XML message	Newer standards, purpose designed message, validated by network.	Earliest would be late 2011. Reach not as wide as FIN MT.





# Agenda

- Netting position confirmations
- **SSI distribution messages**
- Other related initiatives



# Driver for change - background

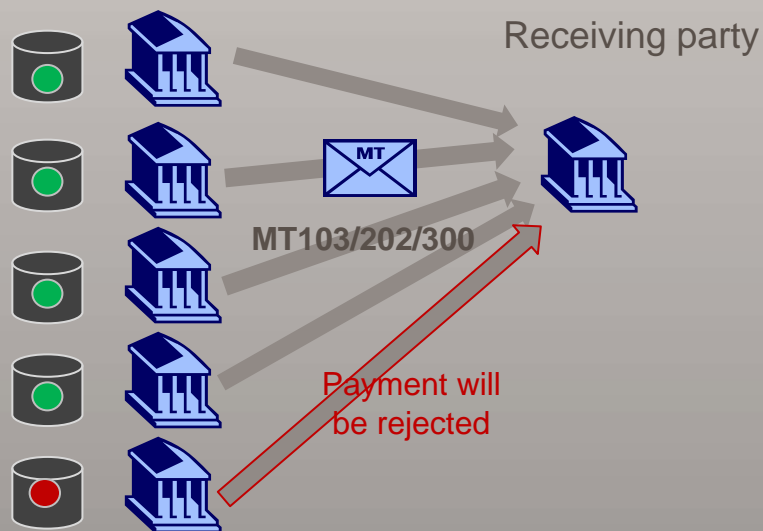
- May 2009 - FXAG requirement for an SSI update message:
  - Authenticated
  - Structured
  - Validated
  - Distributed
  - Over FIN (owing to reach)
- Existing solutions do not meet requirements
  - E.g. MT074 is not authenticated, structured or validated

⇒ Industry cost savings



# What problem are we trying to solve?

Some senders have incorrect SSIs



## Current key pain points & issues around SSIs

- Lack of structure & standardisation in SSI communications today
- Poor quality of SSI data held by FIs owing to above
- Costly – incorrect SSI updates or poor quality SSI data resulting in mis-payments, rejected payments and/or errors (and hence use of funds claims)
- Manually intensive – resource hungry
- Existing solutions don't satisfy users' requirements



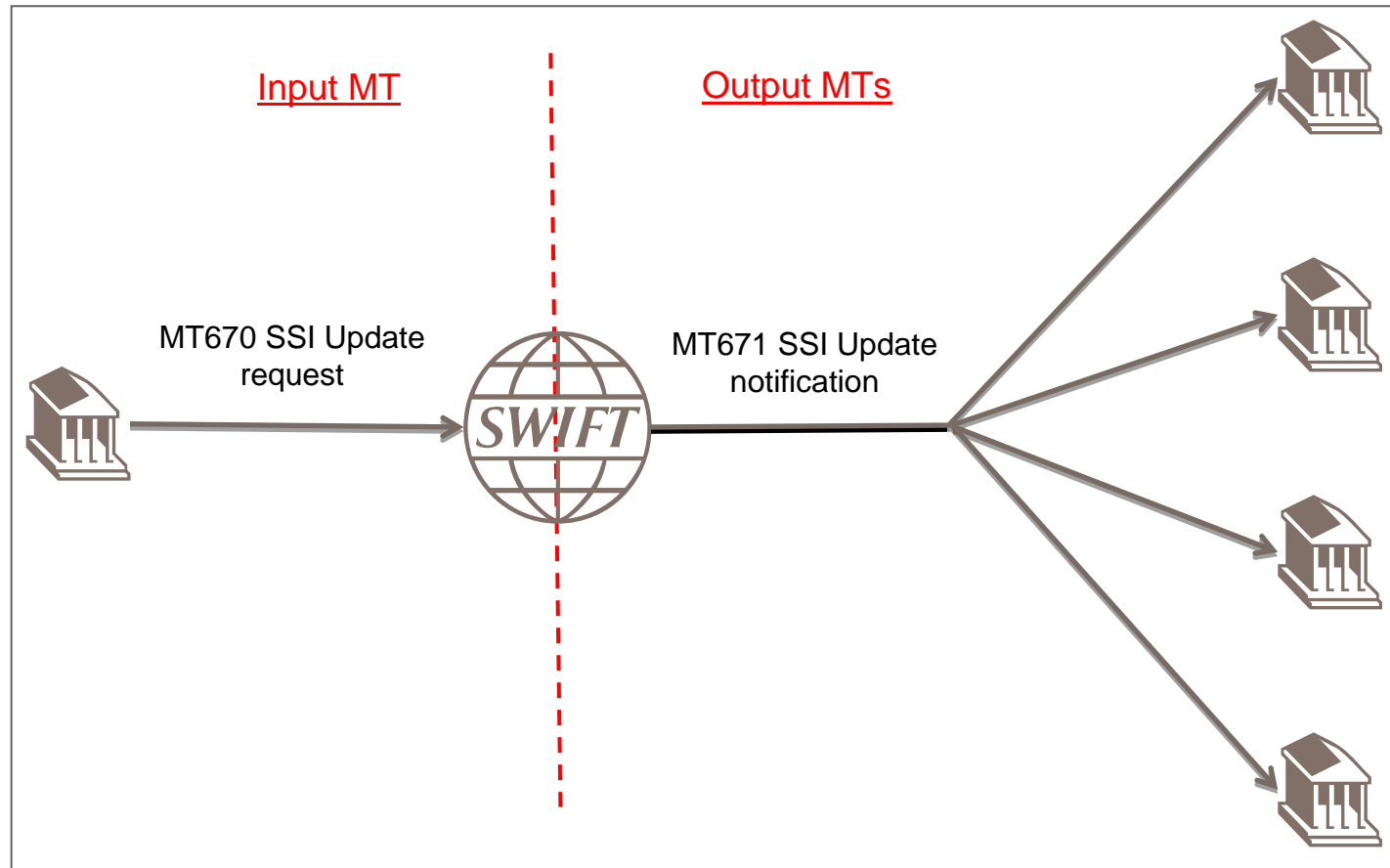


# SSI solution highlights

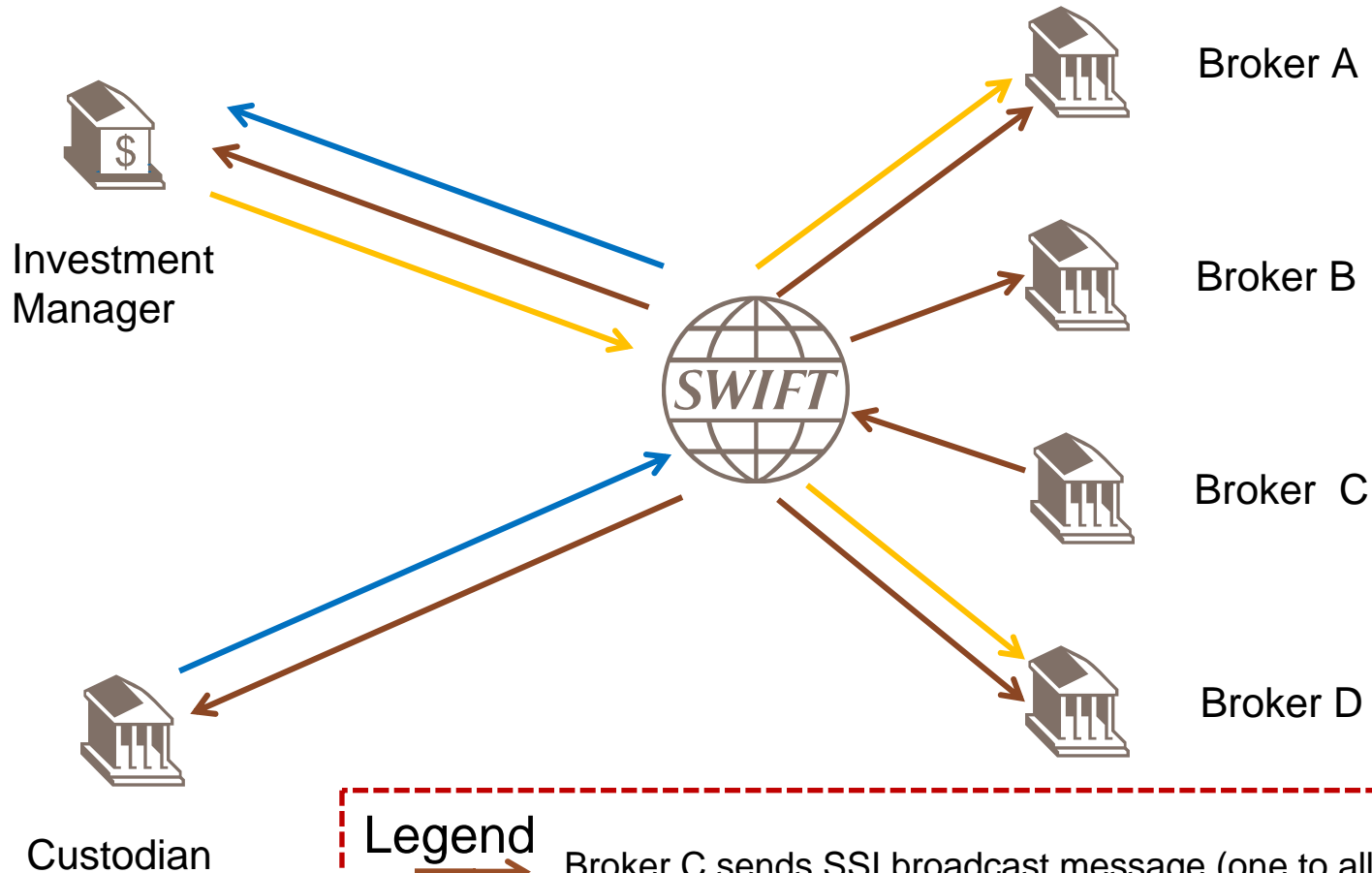
- New structured FIN message (cat 6) **for delivery in SR 2011**
  - Cash SSIs (payments, FX etc.)
  - Can be distributed to
    - All BICs on network
    - All BICs in one or more countries
    - Specified list of BICs
  - Comprises of an input and output message
  - Authenticated
  - Multiple currency updates in single message
  - Currency-specific field usage rules






# Solution overview



# SSI – sample distributions



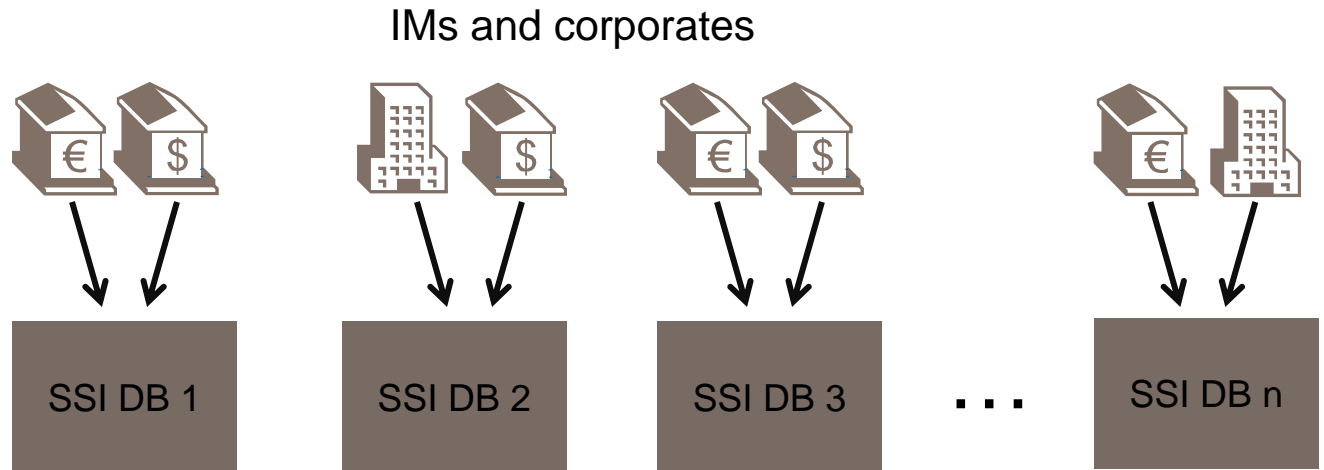
**Legend**

-  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)

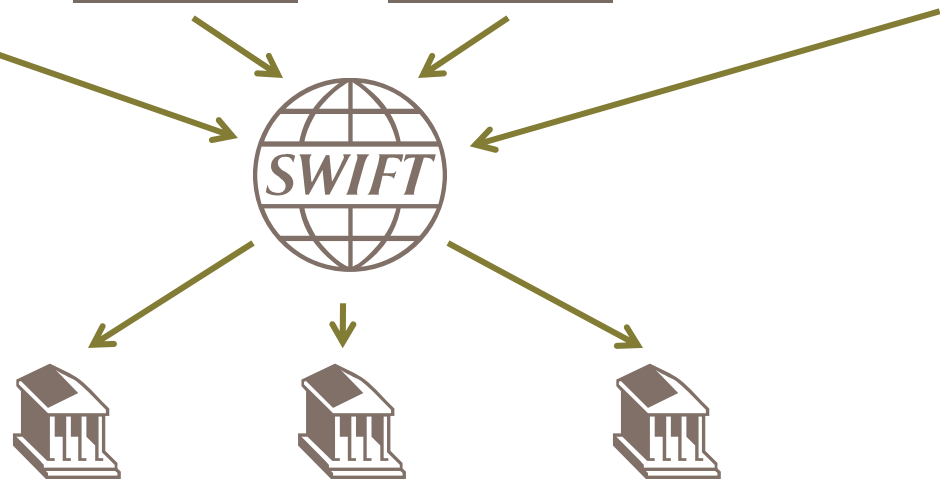


# Standardising repository communications

(1) Buy-sides publish SSIs in their chosen repository in proprietary format or using MT670/1



(2) Repositories update brokers with SSI changes using standardised MT670/1



Brokers



# Agenda

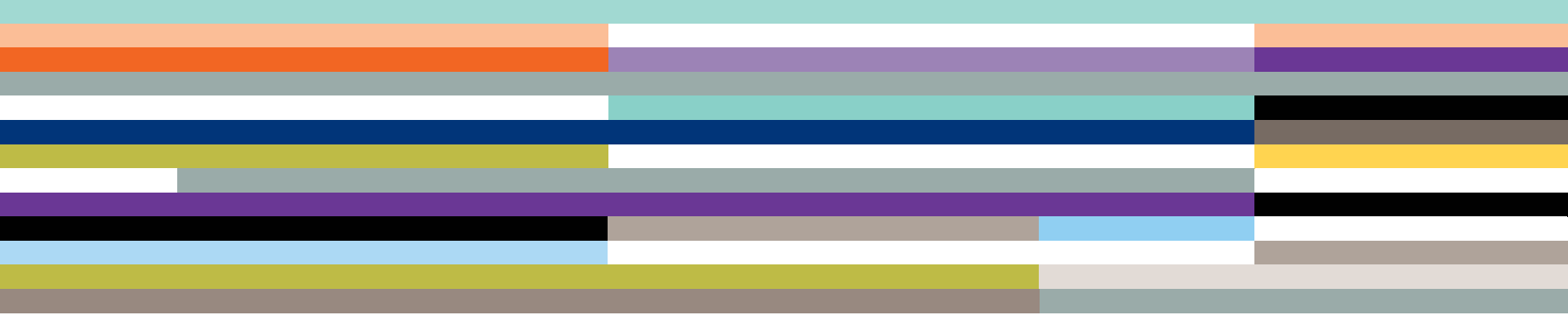
- Netting position confirmations
- SSI distribution messages
- Other FX related initiatives



# In brief.....

- FX Trade Repository (*in discussion*)
  - Network, standards, copy mechanism, LEI etc.
- Precious metals (*live*)
  - standards (MT600/1) and matching (Accord)
- Consolidated reporting (*in discussion*)
  - For fund managers using CLS
  - Reporting standard & possible consolidation tool





Thank you

