Foreign Exchange Programme

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Agenda (20.5.08)

- Overview of « FX forward programme »
  - SWIFT’s role in FX today
  - 3 strategic initiatives
  - FX Advisory Group (FXAG)
- Reference Data - FX SSI
- Corporates - confirmations/affirmations
- Q&A
SWIFT’s role in FX today

- Processed 177mio FX confirmations (MT 300s) in 2007

- **SWIFTNet Accord** – central matching engine for confirmation messages (FX, MM & OTC derivatives) – used by >425 matching entities in 65 countries; 15.8mio messages in 2007

- **CLS** – supports CLS/community in its communication flow for both core FX and NDFs (& for DTCC-CLS credit derivative flows)

- **CLS Third Party Service** - SWIFT provides solution to support the communication flow between CLS settlement members and Third parties (offered by 22 CLS members to >250 Third Parties live; around 1mio transactions per month)

- **Affirmations** offering (when matching is not possible)

- Industry representation – FX JSC, CLS TPS WG, CLS NDF Steering Group
FX services
Current SWIFT post-trade market space

Segment:
- Banks
- Custod.
- MI - back
- Sell-side
- Buy-side
- Corporat.
- MI - front

Asset classes:
- « Traditional » FX
- FX derivatives
- Low value, high volume FX

- \(\sqrt{}\)
FX post-trade processing

Key pain areas

- **Allocations**
  - No industry consistency regarding allocations
  - ECNs and multibank portals complicating workflows

- **FX Settlement**
  - Hedge Funds’ FX volumes stressing Prime Brokers’ processing
  - Overall settlement costs considered too high
  - No single source of Standing Settlement Instructions
  - New flows creating additional exceptions processing

- **Buy-side/Hedge fund workflows**
  - Increasing volumes causing processing bottlenecks
  - Limited solution available for Prime Brokers
  - No industry standard available

- **Front-end fragmentation**
  - Proliferation of portals fragments eco-system
  - Front and Back office speak different languages
  - Breaks in flows hamper end-to-end STP
FX post-trade processing
Three key initiatives

1. Allocations
   Middle-office (& Back-office) services

2. FX Settlement
   Buy-side / prime broker flows

3. Buy-side/ Hedgefund workflows
   Front-end fragmentation
   Trade capture at source
Three key initiatives
1 – Middle-office (& Back-office) services

Middle-office services
- Allocation processing
- Trade aggregation support
- Notification generation & routing
- Extend matching to new instruments
Three key initiatives
2 – Buy-side / prime broker flows

- Broker give-up processing
- Low-value, high-volume trade flow
- Pricing model for high volume users
- Pricing model for low value trades
Three key initiatives
3 – Trade capture at source

- Hooking-up to portals
- Buy-side lighter connectivity
- Affirmation model
- Prime broker connectivity
- ERP/TMS integration (Corporates)
Solution description (one scenario)

Buy-side OMS
- Order capture
  - Order execution + execution report
  - Block trade confirmation
  - Allocation
  - Receive FX confirmation
  - Return block trade match results (API)
  - Receive allocation details
  - Decompose block trade according to allocations
  - Block allocation
  - Generate FX notification
  - FX notifications
  - Notification Generation
  - Settlement results
  - Prime brokers / Custodians

FX Execution
- Matching
  - Receive FX confirmation
  - Return alloc. results
  - Generate FX notification
  - Settlement results
  - Bloomberg blotter update

Sell-side OMS
- Notification storage
  - Settlement results
FX Advisory Group (FXAG)

Established in 2008
FXAG mission and scope

- To assist SWIFT Executive to expand SWIFT’s role in FX post trade/pre-settlement processing
- Define and validate community needs in post-trade processing of FX trades
- Formulate & scope strategic business development plans including standardisation and market solutions as appropriate
- Make proposals for a collaborative industry model as required
Discussion (31.3.08)

- SWIFT’s FX post-trade, pre-settlement programme validated by the group (including 3 key initiatives)

- Industry pain points identified by SWIFT validated by the group:
  - Allocations
  - FX settlement (« bottleneck »)
  - Buy-side/Hedge Fund workflows
  - Front end fragmentation
Key actions/follow-up (Q2, 2008)

Examples of key industry pain points which were prioritised for action by the FXAG:

- **Hedge Fund/Buy-side workflows** - re-package existing messaging solution for buy-side/Hedge fund firms

- **SSIs** - create a standardised, authenticated message for the notification of an SSI change (best practice in change) as a **first step**
Requirements

1. Standardisation of SSI
2. Standardisation of communication
   - One provider
   - Authenticated
   - Validated
3. Limit Scope
   - Interbank
   - FI (ie. Hedge Fund Firms/Asset Managers/Investment Managers)
   - Corporates
Reference Data – FX SSI (1/2)

Next steps

1. Standard SSI Template for FX
2. Results to FXAG by 20th June
3. FXAG to advise next steps

Discussion
Corporate connectivity – how to join the SWIFT community?

1998 - Treasury Counterparty
- Access to all banks on SWIFT
- Message usage limited to treasury deal confirmations

2001 MA-CUG
- Each bank sets up its own environment
- No usage restrictions
- Need to join several MA-CUGs to emulate multi-banking

2007 SCORE
- Messages/standards defined by SWIFT
- Higher standardisation
- Must be listed

Corporate will choose its option(s) depending on its needs
**Typical implementation**

**FIN** (*individual messages*)
Payments (MT101), statements (MT940/2) and FX confirmations (MT3xx)

**Treasury Workstation**

**ERP(s)**

**Payment factory/middleware**

**SWIFTNet**

**SWIFTNet Kit**

**FileAct** (*File transfer*)
Transport any format; payments files, iDOC, ISO20022, ACHs, BAI formats, …
Connecting new users – New Lite offering (H2, 2008)

- Simplified connectivity offering
- Accessible in a secure way
- Over the Internet (low footprint)
- For manual and automated operations
- At a lower price
When Matching is not possible…
SWIFTNet Affirmations – launched 2007

- Multi-broker affirmation service for FX, Money Market and Derivative trades
- Secure and reliable platform operated by SWIFT
- Uses standard FIN confirmations to submit transaction data to a central hub
- Provides graphical interface to view trade details and to accept, reject or query
- Includes complete audit trail and optional 10-year archival service

1 - Dealing bank brokers a trade with end-user
2 - Bank sends FIN trade confirmation to central hub
3 - User views trade details in graphical environment
4 - End user accepts, rejects or queries the trade
5 - Action is stored on central hub
6 - Hub sends reply confirmation for agreed trades
   OR
   - Bank views trade status in graphical interface
SWIFTNet Accord
single-slide overview – overall architecture

Accord subscribers (425 in >65 countries)

Reporting & Exception handling
* Interactive, in
* Real-Time

Accord subscriber or non-subscriber

300, 305, 306, 320, 330, 340, 341,
360, 361, 362, 392, FpML, 600

Copies of MT 3xx confirmations

Copies of non-SWIFT data: fax, e-mail, e-FX portals, Broker feeds, Reuters.....

Synergy with Nostro Reconciliation

Accord
• Real-time Confirmation Matching Service
• Availability of 99.98% 1/1/2001 till today
• >65K msgs/hour processing capacity
• Common matching rules + user-defined rules
• Financial Liability for Matching results