ECB OMG
November 2023 Meeting

Industry update from SWIFT – FX, Payments and Securities

November 2023
Agenda

1. Category 3 standards release changes 2023 & 2024
2. CBPR+ update
3. SWIFT FX Strategy update
4. Hybrid address changes from 2025 to 2026
5. T+1 update
Key Points - Category 3 standards release changes 2023 & 2024

- SWIFT’s MT306 message (used for exotic options and averaging forwards) now incorporates ISDA's May 2022 Barrier Event Supplement.
  - Message sequence F (Barrier block) redesigned to support barrier types and concepts outlined in the supplement
  - Business day conventions and rebates now supported
  - Barrier time type of discrete or continuous now explicitly stated

- As of Standards Release 2024 (November 2024), SWIFT’s MT306 message will also incorporate ISDA’s 2022 Averaging Supplement

- As of Standards Release 2024 (November 2024), SWIFT’s MT306 message will also support Unique Product Identifiers in line with ISO 4914
CBPR+ - update on FX impacts

In 2024 SWIFT will update its CBPR+ (Cross Border Payments and Reporting) ISO 20022 user handbook to include FX trade > Payment flows, examples of MT300 and ISO 20022 payment messages will also be included.
2022: FX customers interviews
Consolidated feedback

Key trends as prioritised by customers

<table>
<thead>
<tr>
<th>Trend</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury/liquidity management (transparency, finality)</td>
<td>78%</td>
</tr>
<tr>
<td>Increase of non-PvP settlement (and associated risks)</td>
<td>72%</td>
</tr>
<tr>
<td>Quality data (standardisation, accuracy, insights)</td>
<td>56%</td>
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<tr>
<td>Security and resiliency/business continuity</td>
<td>22%</td>
</tr>
</tbody>
</table>

Their main recommendations to Swift

- Foster consistent standards usage, market practices and settlement procedures
- Support PvP adoption through single window and resilient infrastructure
- Enable end-to-end, real-time transparency on FX payments to facilitate liquidity management
- Help bring post-trade data closer to front to enable better business decisions
- Increase synergies with CLS to the benefit of common users
Hybrid address changes from 2025 to 2026

• In May 2023 the Payments Market Practice Group (PMPG) raised a change request (CR) targeting Standards Release (SR) 2025.

• The CR is proposing changes to the Usage Guidelines (UGs) for Cross Border Payments and Reporting (CBPR+) on FINplus. It will impact UGs for certain pacs, pain and camt message definitions.

• The CR proposes (where the Postal Address is used) to:
  ➢ Mandate structured elements Town Name and Country
  ➢ Allow either structured or unstructured elements to capture remaining address data
  ➢ Achieve this through the addition and amendment of formal and textual rules, from November 2025 (SR2025)

• The proposal is known as a hybrid (semi-structured) postal address. The proposal is a strategic option with no retirement date planned.

• The CR represents a change to the payment industry’s current strategy of mandating a fully structured postal address from November 2025.

• The Payments Standards Working Group (PSWG) and High Value Payments Plus (HVPS+) group of Market Infrastructures (MIs) conditionally validated the CR in June 2023.

• A consistent approach to the postal address standard is needed across CBPR+ and HVPS+, alignment will prevent friction and interoperability issues.
Benefits of the Change Request

- In an industry readiness survey of corporates, conducted by the PMPG in April 2023, over half (54%) confirmed that under the current strategy they would not be capable of outputting fully structured postal addresses post November 2025. Therefore, they would bypass any rules by truncating or concatenating data.

- The risk of corporates and financial institutions (FIs) truncating and concatenating data under the current strategy post November 2025 is high. In the same survey over half (53%) of corporates confirmed they currently had no active project considering how to output fully structured postal addresses.

- The PMPG has found various corporates and FIs typically store postal address data as a (hybrid) combination of structured and unstructured.

- The CR should ease the migration toward more structured postal addresses by offering alternative implementation options, the first fully structured and the second a combination of structured and unstructured.

- The CR is designed to facilitate the industry successfully migrating to CBPR+ with no truncation or concatenation of postal address data. It should also guard against any resistance to the November 2025 retirement of MT payment messages.

- Whilst a combination of structured and unstructured data would be allowed the mandatory presence of structured town name and country elements should ensure the data quality is still sufficient to take advantage of structured data benefits e.g. improved sanction scanning.
Proposed Implementation

- It has been agreed that whilst the CR is valid a one-year ‘grace period’ for a fully unstructured postal address be allowed from November 2025 – November 2026.

- In this period a fully structured, fully unstructured or semi-structured (hybrid) postal address will be permitted.

- In November 2026, the fully unstructured postal address will be retired and no longer permitted.

- This de-risks the delivery of the CR and will afford SWIFT and the industry better intelligence on readiness for the adoption of a fully structured or semi-structured (hybrid) postal address.
November 2025 – November 2026

Swift Update to ECB Operations Managers Group

**Preferred**

**Fully structured**
- All available address data is mapped into one of the 14 ISO20022 fields
- No co-mingling of data
- No combination with “AdrLine”

**Unstructured**
- No combination with structured ISO20022 address elements allowed
- Difficulty to interpret data due to co-mingling of address elements

**Hybrid**
- Combination of structured ISO20022 address elements and up to 2 lines of 70 characters of unstructured “AdrLine” allowed
- Elements available in structured format must be mapped into the respective structured element (minimum: TownName & Country)
- Structured elements must not be repeated in the AdrLine element(s)

Network validation rules
Textual rule

Example diagrams illustrating preferred and unstructured address formats.
November 2023
Swift Update to ECB Operations Managers Group

November 2026 Onwards

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```
<Name>JOHN SMITH</Name>
<Role>PMG</Role>
<AddressStreet>HOODSTRAAT 6, 18th floor</AddressStreet>
<AddressPostCode>1000</AddressPostCode>
<AddressCountry>BRUSSELS</AddressCountry>
<AdrLine>BE</AdrLine>
```

```
<Name>JOHN SMITH</Name>
<Role>PMG</Role>
<Street>HOODSTRAAT</Street>
<City>BRUSSELS</City>
<AddressLine>1000</AddressLine>
<TownName>BRUSSELS</TownName>
```
Implementation Proposal

- SWIFT will draft two preliminary collections of usage guidelines and their respective readiness portals by December 2023, to promote industry readiness:
  - SR2025 collection for use November 2025 – November 2026, this will allow all three address options
  - SR2026 collection for use November 2026 onwards, this will allow fully structured and semi-structured (hybrid) only, fully unstructured no longer permitted

- The ISO20022 Postal Address is comprised of 16 elements. 15 of these elements would be considered structured whilst the final element, AddressLine can contain unstructured data
Translation

- SWIFT’s strategy remains to deactivate category 1, 2 and 9 MT messages across its FIN network as of November 2025.

- SWIFT recognise that institutions will continue to perform on-premise translation post November 2025 and may continue to handle proprietary formats locally that closely resemble a category 1, 2 or 9 MT message.

- SWIFT currently publishes various translation rules for MX (ISO 20022) > MT and MT > MX (ISO 20022) free of charge, these are used within SWIFT’s own infrastructure for generating multi-format messages but can also be used by institutions for on-premise translation.

- SWIFT will create updated translation rules prior to November 2025 that include translation both from and to a hybrid postal address. Access to these rules is expected to be a payable service.

- SWIFT, in partnership with key stakeholders such as the PMPG will devise the most appropriate rules.
Impact to FX Standards

- As of November 2026, cross-border and various market infrastructure payments will mandate a country code and a town name where a postal address is used.

- Where a BIC is used there is no requirement to include a postal address.

- FX trades and options lead to payments, banks will transpose data from FX and option confirmations onto these payments.

- SWIFT and the FX industry should consider whether existing FX and option messaging standards should be updated to enforce a country code and town name so a downstream payment is not rejected or delayed.

MT 300 - Field 68a: Beneficiary Institution

<table>
<thead>
<tr>
<th>Format</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option A</td>
<td>4</td>
</tr>
<tr>
<td>Option B</td>
<td>4</td>
</tr>
</tbody>
</table>

Fields:
- **ABC**: Account Class
- **ACCT**: Account number
- **ADDR**: Address line of the address
- **ADD2**: Address line of the address
- **CITY**: City
- **CLRC**: Clearing code
- **LRC**: Legal Body Identifier
- **NAME**: Party’s name
- **TXID**: Transaction Identification Code

November 2023
Swift Update to ECB Operations Managers Group
Global equities settlement cycles: Most large markets at T+2, but things are moving

Major equity markets are moving towards or exploring feasibility of accelerated settlement

- **Canada**: Canada will move to T+1 by 27 May 2024
- **United Kingdom**: Government launched taskforce to consider how a T+1 or T+0 cycle could be beneficial to UK
- **US**: SEC confirmed T+1 shortened settlement cycle by 28 May 2024 incl. equities, bonds and municipal securities
- **South America**: Several countries discussing potential alignment with US T+1 securities settlement cycle
- **Nigeria**: NGX plans to transition from T+3 to T+1 in coming years
- **Cote d’Ivoire**: Edaa to shorten settlement cycle from T+3 to T+2 by January 2024
- **Tunisia**: Tunisie Clearing to transition from T+3 to T+2 in 2023
- **Philippines**: Moved from T+3 to T+2 in 2023
- **Russia**: MOEX moved to T+1 for shares and bonds on 31 July 2023
- **Australia**: ASX launched market consultation on potential move to T+1
- **India**: T+1 market for stocks
- **Nigeria**: NGX plans to transition from T+3 to T+1 in coming years

Source: Watch and public news

Powered by Swift BI
Swift Institute's research on "Industry preparedness for accelerated settlement"

Key findings:

There are benefits accruing to broker/dealers and associated custody businesses from reduced counter-party risk, lower settlement margins and for wealth and fund managers, the improved access to funds for custom. Technology is a key issue that needs to be addressed as the readiness of firms for straight through processing is essential for not only improving the ability to comply with accelerated settlements, but also introducing huge benefits in terms of efficiency and operational risk reduction.

The arguments for accelerated settlements are strong, markets such as India are already on a T+1 cycle and mainland China using a T+0 cycle for delivery vs payment settlements and the benefits can be seen. However, our research shows that acceleration can come with significant costs, and, maybe less intuitively, risks, given the need operate seamless settlement processes.

Clear steps need to be taken to implement the migration to accelerated settlement processes:
– Automated affirmation and straight through processing levels must dramatically increase to ensure that current high levels of settlement efficiency.
– Work to remove batch processes, especially overnight batches which will not meet the new deadlines.
– Remove nonstandard instructions and paper from as much of the system as possible.
The post-trade transformation: How Swift Can support

Starting from Securities View

Many initiatives count

- Standards, market practices and messages
- Payment
  - Instant and frictionless strategy
- FX
  - Explore to support reducing settlement risks and improving liquidity

By smartifying the settlement process, every party in the securities eco-system will benefit.

By increasing the industry STP, payment speed/transparency and reduce the risk of FX

Swift data insights to facilitate industry evolution

- > 90% of APAC customers can not send settlement instruction to settle US equity on T date.
- 2 times more late settlement for T+1 vs. T+2
- What happened to Indian x-border settlement after it moved to T+1? What is the take-away?
- What are the key reasons of settlement fails?

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> 90% of APAC customers can not send settlement instruction to settle US equity on T date.

Impact on overseas investors in different time zones

Increased risk for fails under shorter settlement cycle

Manual process/ Non-STP

Speed of x-border remittance

Pre-funding /funding

T+1/0 FX liquidity issue

FX non-PVP risk

Time zone challenges for resolving settlement issues

Securities borrowing

Same day affirmation

Intraday matching

Cost of fail

Impact on overseas investors in different time zones
Swift is a global member-owned cooperative and the world’s leading provider of secure financial messaging services.

We provide our community with a platform for messaging, standards for communicating and we offer products and services to facilitate access and integration; identification, analysis and regulatory compliance.

Our messaging platform, products and services connect more than 11,000 banking and securities organisations, market infrastructures and corporate customers in more than 200 countries and territories. Whilst Swift does not hold funds or manage accounts on behalf of customers, we enable our global community of users to communicate securely, exchanging standardised financial messages in a reliable way, thereby facilitating global and local financial flows, and supporting trade and commerce all around the world.

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