



## **Consultation Report on Risk Mitigation Standards for Non-centrally Cleared OTC Derivatives**

**IOSCO – October 2014**

**Comments from SWIFT**

SWIFT thanks IOSCO for the opportunity to respond to the Consultation on Risk Mitigation Standards for Non-centrally cleared OTC derivatives.

SWIFT is a member-owned, cooperative society headquartered in Belgium. SWIFT is organised under Belgian law and is owned and controlled by its shareholding Users, comprising over 2,300 financial institutions. We connect over 10,500 connected firms, across more than 210 territories. A fundamental tenet of SWIFT's governance is to continually reduce costs and eliminate risks and frictions from industry processes.

SWIFT provides market infrastructures, banking, securities, and other regulated financial organisations, as well as corporates, with a comprehensive suite of messaging products and services. We support a range of financial functions, including payments, securities settlement, reporting (including to Trade Repositories) and treasury operations. SWIFT also has a proven track record of bringing the financial community together to work collaboratively, to shape market practice, define formal standards and debate issues of mutual interest.

We thank IOSCO again for the opportunity to comment on the Consultation, and would welcome further discussion on the comments we have made.

### **Detailed Comments**

#### **Standard 3 - Trade Confirmation**

SWIFT agrees with the Consultation that covered entities should establish and implement policies and procedures to ensure the material terms of all non-centrally cleared OTC derivatives transactions are confirmed as soon as practicable after execution of the transaction.

We recommend that standards and automated procedures should be used for trade confirmation. This would include the use of messaging based on industry standards wherever possible, together with the use of electronic confirmation platforms. Benefits derived from this approach include reduced uncertainty and risk arising from unconfirmed trades, and the facilitation of full industry straight through processing (STP) from the automation of these procedures. There are established confirmation mechanisms available in the industry today which support a standardised approach to electronic trade confirmation. SWIFT, for example, supports and develops relevant messaging standards (known as MT 300 series and MT 600 series messages) which are used on our platform for the confirmation of FX, Commodity and Interest Rate derivatives today. These messaging standards, which have been developed with the financial community, have been incorporated into industry best practice (e.g. Fed 60 best practice, Bank of England NIPs code and ACI model code).

The full list of the messages supported by SWIFT that are relevant for OTC derivatives confirmations is as follows:

MT300 - Foreign Exchange Confirmation (supporting FX forward, swap, non-deliverable forward (NDF))

MT305 - Foreign Currency Option Confirmation

MT306 - Exotic Foreign Currency Option Confirmation

MT340 - Forward Rate Agreement Confirmation

MT341 - Forward Rate Agreement Settlement Confirmation

MT360 - Single Currency Interest Rate Derivative Confirmation

MT361- Cross currency Interest Rate Swap Confirmation

MT600 - Commodity Trade Confirmation (supporting Commodity forward)

MT601- Commodity Option Confirmation

By way of example we have included below the message standard for foreign currency option confirmations, which may be used for either OTC or centrally cleared transactions. Further examples and detail can be provided on the other standard messages mentioned above.

#### **Message Standards Example - Foreign Currency Option Confirmation (MT305)**

This message type is exchanged by or on behalf of the institutions or corporate customers, party A and party B, which have agreed to a foreign currency option contract.

















It is used to confirm the details of:














- a new contract between the parties
- an amendment to a previously agreed contract














- the cancellation of a confirmation
- the surrender of an option by the buyer (holder) to the seller (grantor) for compensation.












It may also be used to report the details of a contract to a trade repository.

### **Message Details**

Status	Tag	Field Name	Content/Options	No.
<b>Mandatory Sequence A General Information</b>				
M	15A	New Sequence	Empty field	 1
M	20	Transaction Reference Number	16x	 2
M	21	Related Reference	16x	 3
M	22	Code/Common Reference	8a/4!a2!c4!n4!a2!c	 4
M	23	Further Identification	16x	 5
O	94A	Scope of Operation	4!c	 6
M	82a	Party A	A, D, or J	 7
M	87a	Party B	A, D, or J	 8
O	83a	Fund or Beneficiary Customer	A, D, or J	 9
M	30	Date Contract Agreed/Amended	6!n	 10
O	31C	Earliest Exercise Date	6!n	 11
M	31G	Expiry Details	6!n/4!n/12a	 12
M	31E	Final Settlement Date	6!n	 13
M	26F	Settlement Type	9a	 14
M	32B	Underlying Currency and Amount	3!a15d	 15
M	36	Strike Price	12d	

Status	Tag	Field Name	Content/Options	No.
				16
M	33B	Counter Currency and Amount	3!a15d	 17
M	37K	Premium Price	3!a12d	 18
M	34a	Premium Payment	P or R	 19
O	53a	Sender's Correspondent	A, B, or D	 20
O	56a	Intermediary	A or D	 21
M	57a	Account With Institution	A or D	 22
O	77H	Type, Date, Version of the Agreement	6a[/8!n][//4!n]	 23
O	14C	Year of Definitions	4!n	 24
O	72	Sender to Receiver Information	6*35x	 25
<b>End of Sequence A General Information</b>				
<b>Optional Sequence B Reporting Information</b>				
M	15B	New Sequence	Empty field	 26
<b>-----&gt; Optional Repetitive Subsequence B1 Reporting Parties</b>				
M	22L	Reporting Jurisdiction	35x	 27
O	91a	Reporting Party	A, D, or J	 28
<b>-----&gt; Optional Repetitive Subsequence B1a Unique Transaction Identifier</b>				
M	22M	UTI Namespace/Issuer Code	20x	 29

Status	Tag	Field Name	Content/Options	No.
M	22N	Transaction Identifier	32x	 30
<b>-----&gt; Optional Repetitive Subsequence B1a1 Prior Unique Transaction Identifier</b>				
M	22P	PUTI Namespace/Issuer Code	20x	 31
M	22R	Prior Transaction Identifier	32x	 32
<b>-----  End of Subsequence B1a1 Prior Unique Transaction Identifier</b>				
<b>-----  End of Subsequence B1a Unique Transaction Identifier</b>				
<b>-----  End of Subsequence B1 Reporting Parties</b>				
O	81a	Central Counterparty Clearing House (CCP)	A, D, or J	 33
O	89a	Clearing Broker	A, D, or J	 34
O	96a	Clearing Exception Party	A, D, or J	 35
<b>-----&gt;</b>				
O	22S	Clearing Broker Identification	1la/35x	 36
<b>----- </b>				
O	22T	Cleared Product Identification	35x	 37
O	17E	Clearing Threshold Indicator	1la	 38
O	22U	Underlying Product Identifier	6a	 39
O	17H	Allocation Indicator	1la	 40
O	17P	Collateralisation Indicator	1la	 41
O	22V	Execution Venue	35x	

Status	Tag	Field Name	Content/Options	No.
				42
O	98D	Execution Timestamp	8!n6!n[,3n][/[N]2!n[2!n]]	 43
O	17W	Non Standard Flag	1!a	 44
O	17Y	Financial Nature of the Counterparty Indicator	1!a	 45
O	17Z	Collateral Portfolio Indicator	1!a	 46
O	22Q	Collateral Portfolio Code	10x	 47
O	17L	Portfolio Compression Indicator	1!a	 48
O	17M	Corporate Sector Indicator	1!a	 49
O	17Q	Trade with Non-EEA Counterparty Indicator	1!a	 50
O	17S	Intragroup Trade Indicator	1!a	 51
O	17X	Commercial or Treasury Financing Indicator	1!a	 52
O	77A	Additional Reporting Information	20*35x	 53
<b>End of Sequence B Reporting Information</b>				
M = Mandatory, O = Optional				

### **Trade Confirmation Timings**

In terms of timings for confirmation, we suggest that confirmation is done as soon as technically possible, but in any event by the end of the first business day following the day of execution (with allowance for time zone and business day differences as appropriate). This would be in line with rules already in place in some jurisdictions e.g. the US.

## **Standard 9 - Cross Border Transactions**

SWIFT agrees that inconsistencies between regulatory regimes should be minimised for the risk mitigation requirements for non-centrally cleared OTC derivatives. In relation to our comments on Standard 3, we believe that the regulatory standards should include a consistent approach to the structure, format and data content of the trade confirmation process, incorporating industry best practice and standards.

### **Annex 1: Possible Material Terms for Confirmation**

Whilst we agree with the list of possible terms included in the annex, we suggest below some other elements which should be considered.

Suggested additional fields:

- a) General Terms
  - Type, date, version of the underlying agreement
  - Receiving Agent cash amount 1
  - Receiving Agent cash amount 2
  - Receiving Agent settlement amount 1 (if physical settlement)
  - Receiving Agent settlement amount 2 (if physical settlement)
- b) Options
  - Option style
  - Strike price
  - Premium price
  - Exercise date
- c) Non-deliverable forwards
  - Valuation date
  - Settlement currency
  - Settlement source
- d) Interest Rate Derivatives
  - Fixed rate period
  - Floating rate period
- e) Commodity Derivatives
  - Identity of the commodity

\*\*\* END OF DOCUMENT \*\*\*

**Richard Young**  
SWIFT | Regulatory Affairs  
Tel: +44 207 762 2029  
Mob: +44 7770883338  
[www.swift.com](http://www.swift.com)

This e-mail and any attachments thereto may contain information which is confidential and/or proprietary and intended for the sole use of the recipient(s) named above. If you have received this e-mail in error, please immediately notify the sender and delete the mail. Thank you for your co-operation. SWIFT reserves the right to retain e-mail messages on its systems and, under circumstances permitted by applicable law, to monitor and intercept e-mail messages to and from its systems.