

BUSINESS JUSTIFICATION
FOR THE DEVELOPMENT OF NEW ISO 20022 FINANCIAL REPOSITORY ITEMS

A. Name of the request:

Securities Settlement: Modification/Replace and Allegement ~~Rejection~~Response

B. Submitting organization:

SWIFT SCRL,
Avenue Adèle 1,
B-1310 La Hulpe,
Belgium

Sponsored by:

- T2S (*currently for the Replace/Modification message only*)
- Euroclear
- Clearstream ICSD
- DTCC
- JASDEC
- Euroclear Finland/Finnish Central Securities Depository Ltd

C. Scope of the new development:

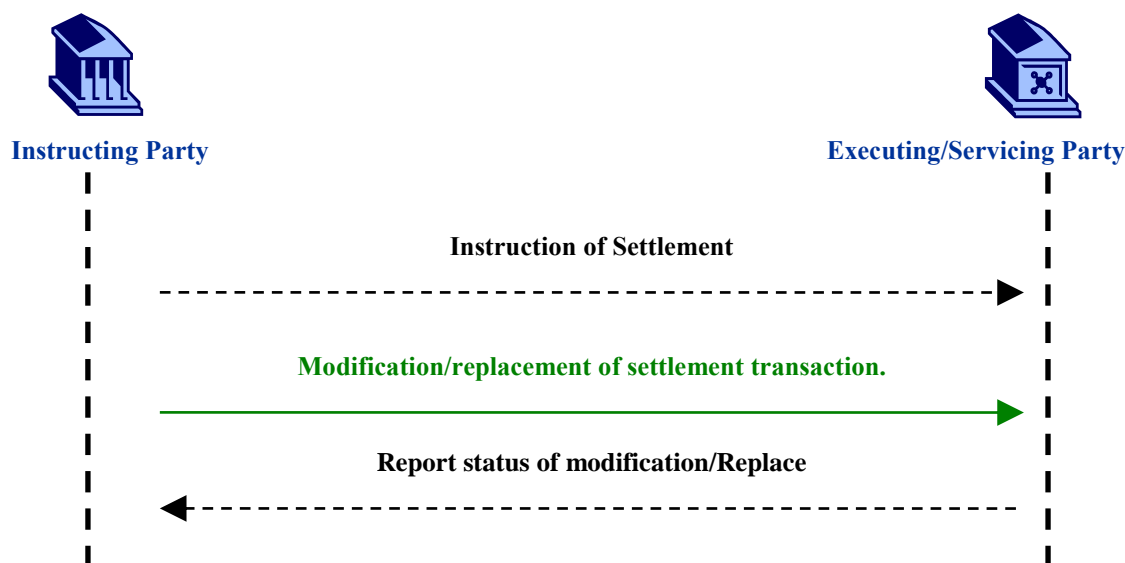
This business justification complements the previously submitted – and approved – business justification for the reverse engineering of ISO 15022 Settlement & Reconciliation messages.

The scope of this business justification is to address the gaps identified during the industry consultation conducted for the reverse engineering of ISO 15022 by creating the necessary ISO 20022 compliant Business Transactions and Messages to cover the 'modification/replace instruction' process and the 'allegement ~~rejection advice~~ response' process.

The industry consultation has determined that such functionality is required only in the settlement space.

a. Modification/Replace process

The Modification/Replace process will give the possibility to an instructing party to modify, replace or enrich a transaction after its instruction without the necessity to cancel and resend a new one.

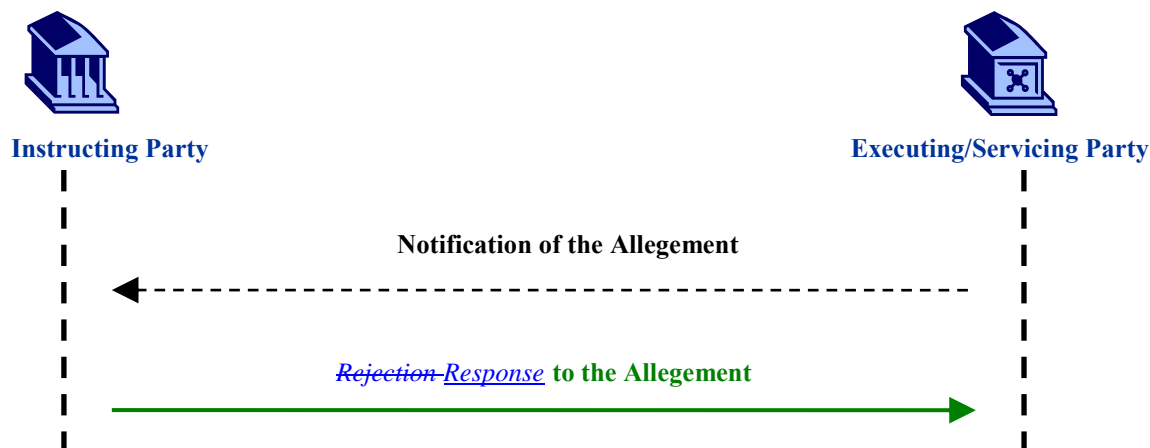


A preliminary analysis indicates that there are different modification /replace needs (such as accounting data post settlement modification, settlement details enrichment or instruction amendment to allow matching) that may require specific messages. The ISO 20022 modelling process will confirm or not this analysis. This explains why the process is described as Modification/Replace as it will cover different requirements.

The current process to cancel and instruct a new transaction will of course still be possible.

b. Allegement Rejection-Response process

The Allegement Rejection-Response process will give the possibility to a party to reject an allegement notified by a CSD in case the party does not recognise the transaction or inform the CSD of an action taken on the allegement.



The business processes highlighted in red italic in the table are in scope of this business justification.

Financial Instruments	All instruments covered by the Classification of Financial Instrument [CFI] standard (ISO 10962).
Business area	Securities Settlement
Business Processes	Receive Free Receive Against Payment Deliver Free Deliver Against Payment <i>Replace/Modification</i> Settlement Allegement <i>Allegement Rejection-Response</i>
Out of scope	Securities Settlement Conditions Modification Instruction (also know in ISO 15022 as Transaction Processing Command MT530) as the scope of this message is the modification of processing data, e.g. priority indicator, whereas the scope of the Replace/Modification message is the modification of Business data, e.g. quantity

In view of the scope, we recommend that the Securities SEG be assigned the evaluation of the candidate ISO 20022 models and messages.

D. Purpose of the new development:

The purpose of the development is to take the opportunity of the move to ISO 20022 to offer improved functionality to parties involved in securities settlement.

With harmonisation industry initiatives such as Giovannini, there is an increasing pressure on the securities industry to move from proprietary standards to ISO 15022 and/or ISO 20022.

As explained in the business justification ‘Securities Settlement & Reconciliation’ introduced by SWIFT and approved by the RMG in September 2007, the objective of the ISO 15022 Reverse Engineering project is to ensure that the right balance is kept between the need for close reverse engineering from ISO 15022 and the need for leveraging the benefits and principles of ISO 20022, by undertaking a series of tasks among which:

- the attempt to solve ISO 15022 message issues that were identified by the ISO 15022 Registration Authority and the SMPG and that has been postponed awaiting ISO 20022 equivalent messages.
- to ensure that additional requirements identified by harmonisation initiatives such as Giovannini are included in both ISO 15022 and ISO 20022.

In this framework, the Modification/Replace and Allegement Rejection processes were identified as gaps that should be addressed by developing required ISO 20022 models and

messages. As these gaps do not prevent usage of current ISO 15022 messages, it was felt appropriate to integrate this additional functionality in ISO 20022 messages only.

- The Replace/Modification message will:
 - provide CSDs and infrastructures with the functionality they currently have in their proprietary messages. When migrating to ISO 20022, the functionality must be kept to maintain the same service level to users.
 - solve current potential risk linked to the usage of a cancellation request followed by a new, replacement instruction. Indeed, when the cancellation request is not processed for whichever reason, there is a risk that both the old settlement instruction (to be replaced) and the new one (replacement) are executed. The Replace/Modification message will avoid the processing of the replacement instruction if the cancellation fails.
 - provide the functionality to ensure the correct sequencing when multiple modifications are sent out for a specific transaction.

- The Allegement *Rejection-Response* message will provide the functionality to the CSD participant to reject an allegation received from the CSD when it is considered alleged by mistake or to inform the CSD that an action has been performed (such as the forwarding of the allegation to the next party in the chain). *Rejection-This* can be particularly useful for countries where alleged securities are delivered, free of payment, on the alleged party account without any matching instruction on his side if, after a predefined number of days, the allegation is not rejected. In this scenario the alleged party will have to deliver the securities back to the alleging party. In the markets where the securities cannot be delivered (free or vs. payment) without a matching instruction being set up by the alleged party, the instruction can remain pending for a long time before it is cancelled either by the CSD or the alleging party.

Note: for delivery vs. payment a matching instruction is needed in all markets.

Following securities market infrastructures have expressed the need for such messages: T2S, DTCC, JASDEC, Euroclear, Nordic CSD.

E. Community of users:

All securities industry players that send and process settlement instructions such as investment managers, global custodians, sub-custodians, National and International Central Securities Depository, brokers, clearing brokers, etc.

Benefits to users?

- Modification/Replace message is needed by
 - the CSDs and infrastructures that will be migrating to ISO 20022 will keep the same service level to their users

- existing users to solve current operational issues linked to the separate sending of the cancel and new instruction messages.
- Allegement ~~Rejection~~ Response message is needed by
- the recipient of an allegation to indicate, *for example*, to the CSD that the transaction was alleged by mistake in order to avoid, in some markets, the delivery of the securities on the alleged party account without a matching instruction, forcing him to deliver back the securities.
 - the recipient of an allegation and the CSD to avoid having irrelevant information pending on their reporting for a long time before it is cancelled either by the alleging party or the CSD.

With geographical distribution of the sponsors of the project (DTCC, T2S, JASDEC, Euroclear, Nordic CSD), the potential for the worldwide usage of these messages is very high.

F. Timing and development:

The objective is to have the candidate ISO 20022 Replace and Allegement Rejection messages submitted to the RA in Q4 2009.

Major players in the community such as DTCC, T2S, Euroclear, JASDEC and the Nordic CSD agreed to sponsor this business justification. The development will primarily involve these parties and some of their participants, but related documentation will be made available to all interested parties (through SWIFTCommunity.net and SMPG websites).

G. Commitments of the submitting organization:

SWIFT confirms that it will:

- Undertake the development of the candidate ISO 20022 UML models that it will submit to the RA for compliance review and evaluation.
- Address any queries related to the description of the models and messages as published by the RA on the ISO 20022 website.

SWIFT is planning to implement the messages on its network.

SWIFT is also committed to initiate and participate in the future message maintenance.

SWIFT confirms its knowledge and acceptance of the ISO 20022 Intellectual Property Rights policy for contributing organizations, as follows:

“Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the

contributing organization grants third parties a non-exclusive, royalty-free licence to use the published information”.

H. Contact persons:

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I. Comments from RMG members and disposition of comments by SWIFT

Wherever the original version of the business justification has been amended to address comments, these amendments are highlighted in *blue italic underlined characters*.

Dutch comment *and disposition of comment:*

The comment of the Dutch SMPG on the Business Justification ‘Securities Settlement Replace/Modification and Allegement rejection’ is that we feel the Allegement Rejection is too limited. We would like to have a Feedback or Answer message where a Reject is one of the possible answers.

The message could also be used in a more positive way. For example if the receiving party wants to inform that the Settlement allegement is forwarded to the next party in the settlement chain (if any).

A Settlement Allegement Response also makes it possible to increase the use of matching instructions instead of using unilateral instructions (dumps). Dumps are frequently used for (retail) portfolio transfers. A Settlement Allegement Response allows automatic processing of those transfers based upon the Settlement Allegement. The receiving party is able to inform the counterparty that the securities will or will not be accepted (and no counter instruction will follow).

Response from SWIFT

We acknowledge the request for this function to be an allegement “response” rather than only an allegement “rejection”. The name and scope of the business justification has been amended accordingly. The content of the response, that is, whether it should only be negative (rejection) or also positive will be further investigated as part of the development process.