

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

A. Name of the request:

CCP Clearing

B. Submitting organization(s):

S.W.I.F.T. Scrl

Avenue Adele, 1

B1310 – La Hulpe, BE

and

FIX Protocol Limited (FPL)

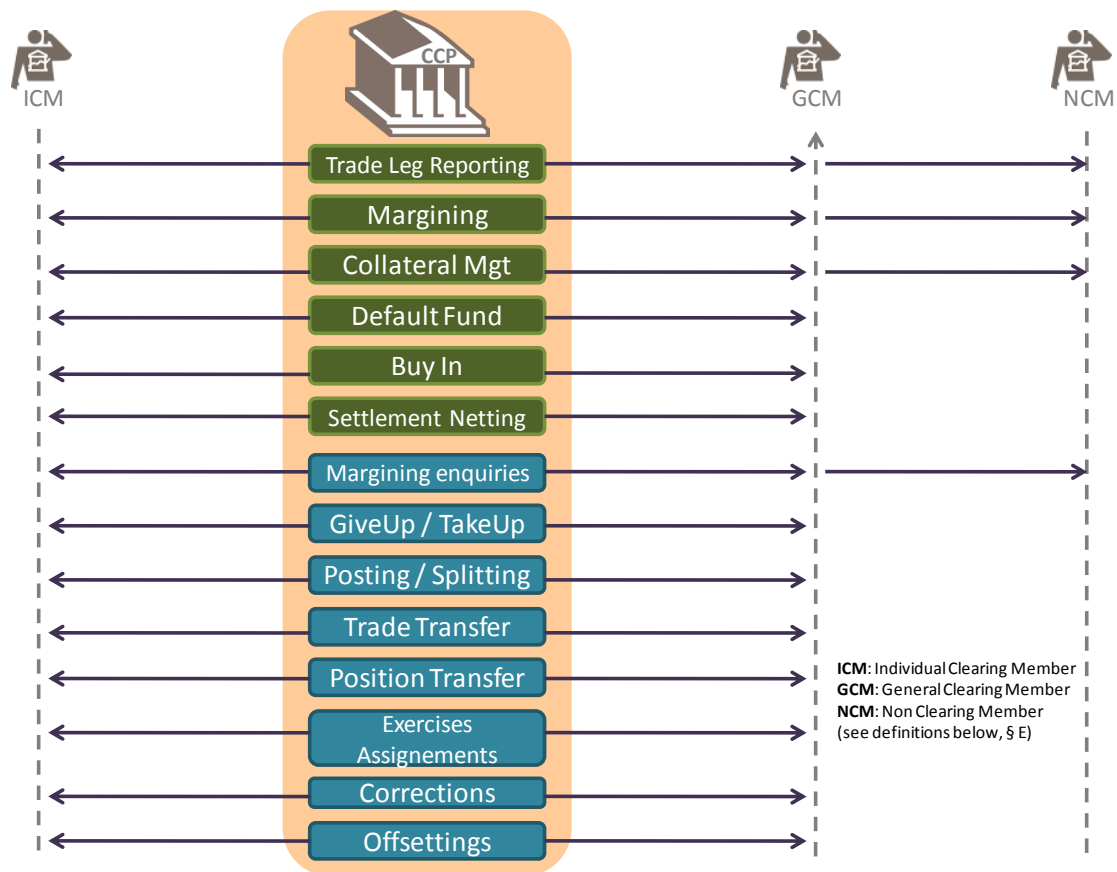
107-111 Fleet Street

London EC4A 2AB

C. Scope of the new development:

- 1 This registration request covers the Central Counterparty (CCP) clearing as shown below.
- 2 Clearing generally refers to the processes which happen after a trade is matched until its
- 3 submission to settlement, and comprises various actions such as novation, netting and risk
- 4 management (in particular, making use of collateral). The clearing service is provided either
- 5 by a Central Counterparties or in some cases this clearing role is performed by the Central
- 6 Securities Depository (CSD).

- 7 *Processes and flows in scope. Green boxes are areas of initial focus; blue boxes will be*
- 8 *addressed afterwards.*



10 The results of the Giovannini gap analysis conducted by SWIFT Standards in 2006
 11 highlighted that while existing standards cover some of the CCP flows, there is a need to
 12 create ISO standards in the clearing space to enable the removal of Giovannini Barrier 1.

13 While the gap analysis performed by SWIFT Standards focused on fixed income and
 14 equities, the Futures Industry Association and Futures Options Association (FIA/FOA) have
 15 also concluded that standards are needed to cover clearing of listed derivatives. In addition,
 16 there is also the need for CCP's to comply with the Code of Conduct (supporting pricing
 17 transparency, service segregation and requiring interoperability between different EU CCPs).

18 The scope of central counterparties clearing is broad and SWIFT does not anticipate
 19 delivering the entire solution in one phase. Instead, in Phase 1, SWIFT will initially focus on
 20 the communication flow between the central counterparties (CCP's) and general/individual
 21 clearing members (GCM's and ICM's) for fixed income and equity business processes (the
 22 green boxes in above diagram). However, although the modeling will focus on those
 23 processes applicable to equities and fixed income as shown in the green boxes above, it will
 24 also include listed derivatives related requirements applicable to these processes. This would
 25 be delivered in a first phase (Phase 1).

26 Phase 2 will focus on listed derivatives specific processes (the blue boxes in above diagram),
 27 but will also include the communication between non-clearing members (NCM's) and
 28 GCM's members. It should be noted that the scope of Phase 2 encompasses the processes
 29 and flows described in the SMPG market practice 2008, "Listed Derivatives Trade
 30 Notification and Management Flow".

31 ~~In a second phase (Phase 2), this will be expanded to include listed derivatives as well as the~~
 32 ~~communication between non-clearing members (NCM's) and GCM's.~~

33 ~~It can also be noted that certain business processes performed in this space are specific to~~
 34 ~~certain instruments ie, postings are done for derivatives but not equities. Therefore, in Phase~~
 35 ~~1, the modelling will focus on those processes applicable to equities and fixed income as~~
 36 ~~shown in the green boxes in the diagram above. Phase 2 will expand to listed derivatives and~~
 37 ~~other processes as shown in the blue boxes in the diagram above.~~

38 Also, the CCP to CCP communication flow is currently not very developed; it is expected
 39 that more links between CCPs will be built in the future, where ISO standards will bring
 40 their full benefits. As a consequence, the CCP to CCP communication will be covered by
 41 this business justification: additional requirements will be taken on board after Phase 2.

42 The following table outlines the overall scope of this business justification (for both Phase 1
 43 and Phase 2).

Financial instruments	Equity Fixed income Listed derivatives
Business areas	Securities clearing (secl)
Business processes	Trade Leg Reporting Margining Collateral Management processes covered by CCP's Buy in Default Fund Contributions Settlement Netting Margining enquiries (Derivatives specific) GiveUps / TakeUps (Derivatives specific) Postings / Splitting (Derivatives specific) Trade Transfer (Internal & External - Derivatives specific) Position Transfer (Derivatives specific) Exercises Assignments (Derivatives specific) Corrections (Derivatives specific) Offsetting (Derivatives specific)

44

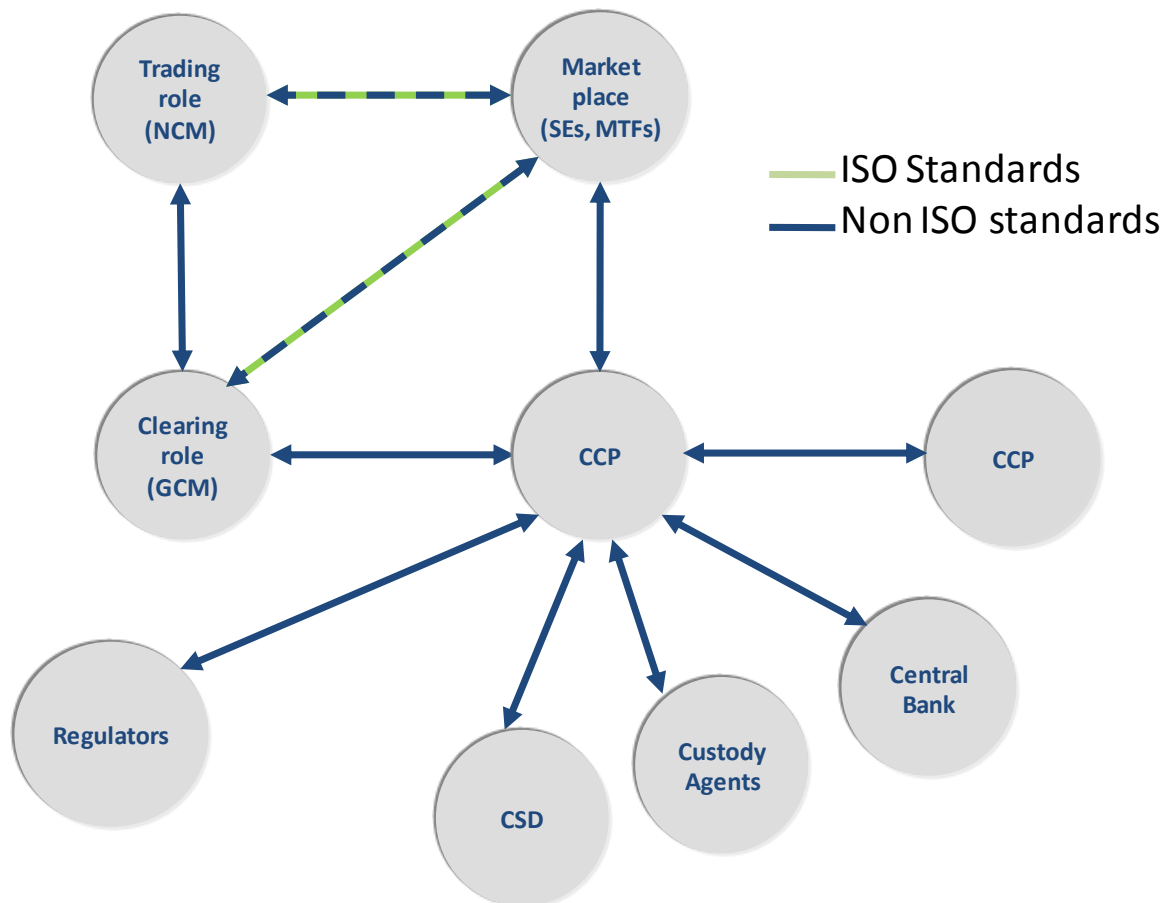
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Out of scope	Collateral processes not conducted by CCP's ie Tri-party collateral management Trade capture Settlement Asset servicing Borrowing
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46 In view of the scope, we recommend that the Securities SEG be assigned the evaluation of
47 the candidate ISO 20022 models and messages. [FPL fully intends to generate FIX syntax](#)
48 [messages from the ISO 20022 models where there is overlap with existing FIX messages.](#)
49 [This is needed to continue FIX's support of CCP implementations that exists today as well as](#)
50 [any CCP who chooses to support FIX for their members.](#)

D. Purpose of the new development:

51 Current communication flows:



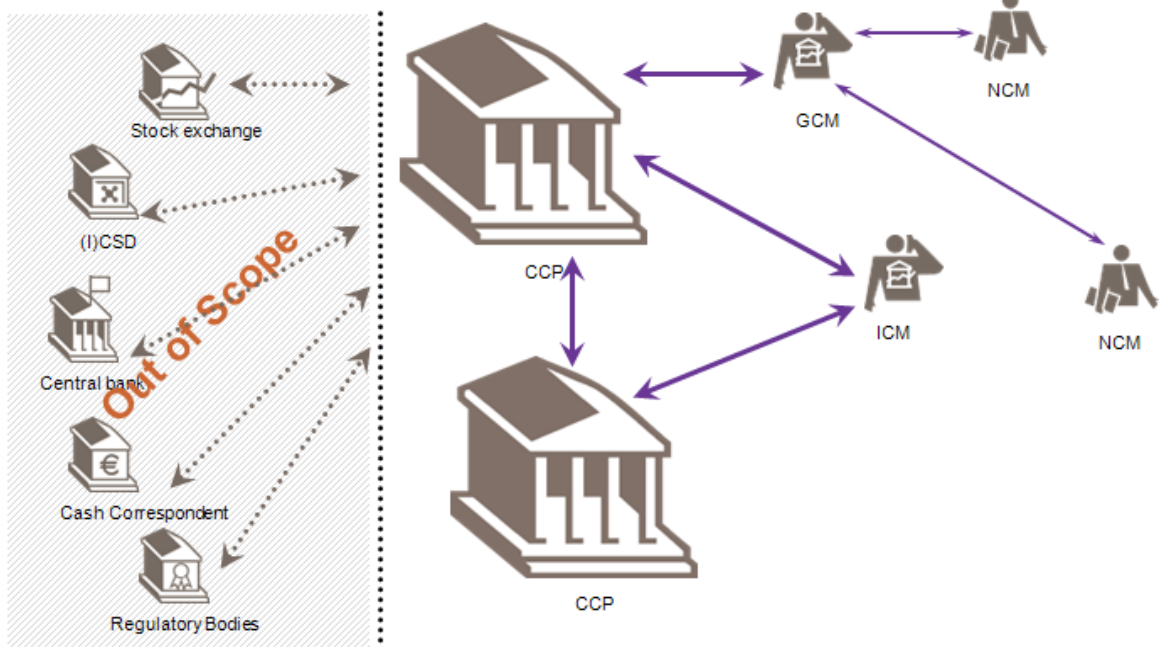
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53 There are a number of objectives supporting this business justification:

- 54 • Enable the removal of Giovannini Barrier 1 in Europe – SWIFT Standards, together
55 with the SMPG were mandated to ensure ISO Standards could support the core
56 clearing and settlement functions for fixed income and equities. Analysis of the
57 existing ISO 15022 standards illustrated that there were gaps in the area of clearing.
- 58 • Enable interoperability between the different EU CCP's. Since the implementation of
59 the Code of Conduct, CCP's have received several requests for improving access and
60 interoperability. Providing an ISO 20022 standard would facilitate this.
- 61 • Allow CCP's to offer their customers more efficiency to manage and re-use their
62 capital, hence reducing the cost of collateral. The introduction of ISO 20022 will
63 enable CCPs and their members to standardize communication on processes managed
64 differently by the CCPs today. Looking at the business flows and moving towards a
65 common business model will support further harmonization of such processes. Also,
66 the development of new collateral management messages (leveraging on the existing
67 ISO 15022 MT503-MT507) as part of this central counterparty clearing project will
68 support this.
- 69 • Further complete the securities end-to-end processing chain in ISO 20022.
70 Developments are already under way in the areas of corporate actions, settlement &
71 reconciliation, post-trade matching as well as the work already done in pre-trade trade
72 and with Working Group 11. The development of clearing messages is another step
73 towards completing the securities business model in ISO 20022.
- 74 • An additional objective is to be able to support clearing services across multiple
75 instruments so that one standard could be used for fixed income, equity and
76 derivatives.
- 77 • Incorporate the work of the FIA Post Trade working group for listed derivatives into
78 the ISO 20022 standard.
- 79 • Reverse engineer relevant FPL ~~post-trade~~ clearing messages into the ISO 20022
80 standard.
- 81 • A final objective is to be able to generate FIX message syntax from the common ISO
82 20022 business model that supports CCP processes. This will ensure that FIX
83 message syntax are aligned with the harmonization of such processes, thereby
84 facilitating end-to-end cross boarder processing between European and non-European
85 CCPs; in particular US-based CCPs who have chosen to use FIX message syntaxes.

E. Community of users:

86 The following diagram further illustrates the scope and the actors involved:



87

88 The actors who will directly benefit from the introduction of standards for clearing are:

89 A Central Counter Party (CCP) is an infrastructure which clears securities trades executed by
 90 its members. It guarantees these trades against the counterparty's failure by becoming a seller
 91 to every buyer and a buyer to every seller. It nets transactions and manages risks by making
 92 use of margining and collateral procedures.

93 *The Code of Conduct requests that CCPs invest in interoperability and easy access to their*
 94 *services. The introduction of ISO 20022 standard will support CCPs in being compliant with*
 95 *this request.*

96 A CCP has two customer types, typically called Members: an Individual Clearing Member
 97 (ICM) which will only clear on its own behalf (also called 'self-clearing' member), and a
 98 General Clearing member (GCM), which will also clear on behalf of its own customers.

99 *Clearing members will benefit from the ISO 20022 standard from an interoperability and*
 100 *access point of view. They will be able to access to and communicate with several CCPs*
 101 *using a single set of messages. Also, the ISO 20022 business model will support discussions*
 102 *to harmonize the processes and flows, which will reduce complexity for the clearing*
 103 *members willing to diversify their access to CCPs. Another benefit is for clearing members*
 104 *active in other business areas (such as settlement, custody and funds management) and using*
 105 *(or planning to use) ISO 20022 messages in these areas: they will be able to leverage their*
 106 *knowledge and investment.*

107 A Non Clearing Member (NCM) is typically a broker-dealer member of an exchange or
 108 other type of trading venue that is not able to clear transactions, and so must use the services
 109 of a GCM to carry out its clearing operations.

110 *It is expected that some messages (to be defined in Phase 2) exchanged between a CCP and*
 111 *a GCM can be reused between a GCM and a NCM. As a consequence, NCMs will also*
 112 *benefit from the ISO 20022 standard to communicate with several GCMs, have more*
 113 *flexibility in selecting their service provider(s) and leverage ISO 20022 implementation in*
 114 *other areas.*

115 [The community of users who would utilize the FIX message syntax are in the listed](#)
116 [derivatives clearing from clearing house to clearing firm, who have already chosen to](#)
117 [standardize on FIX to service their clearing customers. In addition, within listed derivatives,](#)
118 [many firms currently use FIX message syntax between clearing firm and customer.](#)

F. Timing and development:

119 The availability of ISO 20022 XML securities clearing messages is important to enable the
120 removal of Giovannini Barrier 1, which states that all participants involved in European
121 cross-border transactions must be able to exchange either ISO 15022 or ISO 20022 standards
122 by 31 March 2011.

123 As almost no ISO standards are available today for the clearing space, participants will
124 implement directly ISO 20022 messages and hence be compliant on due date with the
125 Giovannini recommendations.

126 The current plan is to have ISO 20022 models and messages for Phase 1 of this project (ie,
127 communication flow between CCP and (G)(I)CM for fixed income and equity) ready for
128 submission to the RA by Q1 2010. This would represent approximately 20 messages.

129 Phase 2 (ie, communication flow between CCP and (G)(I)CM for listed derivatives and
130 communication flow between NCM and GCM) submission date will be defined after further
131 consultation with the market, once Phase 1 is delivered; discussions will take place in 2010.
132 A similar number of messages is expected for Phase 2 delivery.

133 This development will include the reverse engineering of the FIX Protocol model and
134 messages that support the business flows between CCPs and their clearing members.¹

135 To build these models and messages, SWIFT and FPL will establish a working group
136 including experts from European CCP's, GCM's and NCM's and will leverage on the work
137 completed by the FIA/FOA [standards Post-trade Working Group](#).

138 In addition, the second phase will consider the specific requirements of NCM and will
139 involve more largely these players.

140 By including FPL and leveraging the work of FIA/FOA during Phase 2, the specific
141 requirements of non European CCPs and their members will be largely addressed.

G. Commitments of the submitting organization:

142 SWIFT is committed to

143 Undertake the development of the candidate ISO 20022 business models and message
144 models that it will submit to the RA (Registration Authority) for compliance review and
145 evaluation. The submission will include Business Process Diagram (activity diagram),
146 Message Flow Diagram (sequence diagram) and Message Definition Diagram (class
147 diagram), as well as other descriptive material that will be used by the RA to generate the
148 Message Definition Report;

149 Address any queries related to the description of the models and messages as published by
150 the RA on the ISO 20022 website.

151 SWIFT intends to organize pilot testing of the resultant message schemas.
152 SWIFT is also committed to initiate and/or participate in future message maintenance.

153 **FPL is committed to**

154 Providing resources to work jointly with SWIFT on the reverse engineering of existing FIX
155 [post-trade clearing](#) messages, FIA post trade working group requirements, and development
156 of the new candidate ISO 20022 messages.

157 FPL will assist in addressing any queries related to the descriptions of the models and
158 messages as published by the RA on the ISO 20022 website.

159 FPL will initiate and or participate in future message maintenance.

160 **SWIFT and FPL acknowledge and accept the following:**

161 “Organizations that contribute information to be incorporated into the ISO 20022 Repository
162 shall keep any Intellectual Property Rights (IPR) they have on this information. A
163 contributing organization warrants that it has sufficient rights on the contributed information
164 to have it published in the ISO 20022 Repository through the ISO 20022 Registration
165 Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public
166 and uniform use of the ISO 20022 Repository information, the contributing organization
167 grants third parties a non-exclusive, royalty-free license to use the published information”.

H. Contact persons:

SWIFT Standards

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185

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

187 Changes to the original text of the business justification are highlighted in [track change](#)
188 [mode](#).

189 **Comments from France *and disposition of comments:***

190 France welcomes the submission of an ISO business justification from FIX Protocol Limited (FPL)
191 and SWIFT in relation to the CCP Clearing. We are indeed in favour of the adoption of international
192 standards for the communication flows between the central counterparties (CCPs) and general /
193 individual clearing members (GCMs / ICMs) for fixed income and equities.

194 However we have a certain number of comments to the request which we set out below.

195 Scope of the new development (part C, line 23 and following)

196 We understand that after a phase 1 - where a solution will be delivered for the communication flows
197 between the CCPs and GCM / ICMs, a second phase will expand to include listed derivatives as well
198 as communication between non clearing members (NCMs) and GCMs.

199 Taking into account that a market practice [Title : Listed Derivatives Trade notification and
200 management flow] has been validated in 2008 by the SMPG, a clarification is needed here.

201 This market practice (MP) has the scope to 'describe the trade notification and management flow for
202 the opening, monitoring and closing of listed derivatives position'. This document covers trade
203 notification, give-up / allocations, exercise/abandon instructions,
204 booking/exercise/abandon/assignment confirmations, outstanding transaction advice and statements.

205 Could the submitters of the CCP clearing BJ make it clearer for the international community what is
206 the scope which will be covered with the phase 2 ?

207 *This was made clearer in the business justification.*

208 Could the submitters also confirm that the definitions proposed in lines 70 and following for CCPs,
209 GCMs and ICMs are consistent with the definitions of the same authors in the MP ? These definitions
210 should be in the end ISO 20022 compliant.

211 *As a general comment, terms and definitions will be aligned with the SMPG Market Practice*
212 *“Listed Derivatives Trade Notification and Management Flow” during the design phase. We*
213 *completely agree that definitions should be in the end ISO 20022 compliant. However,*
214 *looking at the MP, only Clearing Member has been defined (where the differentiation*
215 *between general and individual clearing member is not made at the level of the actor).*
216 *Additional definition for CCP and non clearing members will be proposed.*

217

218 Commitments of the submitting organization (Part G, line 130 and following)

219 Here again, we would appreciate some clarification on a more 'technical' area.

220 It is indicated (line 130 and following) that FPL is committed to provide resources to work on the
221 reverse engineering of existing FIX post trade messages, FIA post trade working requirements, and
222 the development of the new candidate ISO 20022 messages.

223 In which syntax will these new messages be developed ? Is it XML or FIX ?

224 Again, taking into account that the Listed derivatives MP describes scenarios, where the flows are
225 covered with MT messages (MT 54-0,1,2,3,8 and 548) it is key to specify for the CCP clearing what is
226 the syntax which will be used.

227 For the GCM/ICMs actors, it is now well known that the cost to maintain multiple syntaxes is major,
228 even if the modelisation is done in all cases in compliance with ISO 20022.

229 *The project will deliver ISO 20022 business and message definition models that will be*
230 *submitted to the RA and SEG for approval. These models will be used by the RA to generate*
231 *ISO 20022 XML message schemas.*

232 *FPL intends to use the same ISO 20022 business and message definition models to generate*
233 *messages in the FIX syntax (whether in the tradition tag=value or FIXML Schema syntax)*
234 *where relevant to support the community of users who choose to implement FIX syntax.*
235 *Today there is an existing community of users that have implemented FIX to support the*
236 *clearing processes, in particular non-European users.*

237

238 **Comments from ISITC and disposition of comments:**

239 ISITC which represents the interests of a large number of investment managers,
240 custodians, and broker/dealers welcomes the opportunity to provide feedback on
241 this business justification.

242

243 We raise the following observations for additional clarification in the document:

244

- 245 • In lines 23 and 24 of the document, it states that Listed Derivatives will be
246 part of Phase 2 of the initiative, however in the scope table (line 34) Listed
247 Derivatives are included. Will any portion of Listed Derivatives be covered
248 in Phase 1, or will the BJ be modified to clarify the scope of Phase 1?

249 *This was made clearer in the business justification.*

250

- 251 • In lines 52 – 54 the BJ notes that the existing MT 503-MT507 messages
252 will be leveraged for development of new collateral management messages.
253 As these are minimally supported by the industry today, what benefit is
254 expected to be realized from their re-engineering?

255 *The ISO 15022 collateral messages can be leveraged by analyzing their weaknesses*
256 *(ie, why are these messages not so used by the industry today) in terms of processes,*
257 *flows and content and how can this be improved for the ISO 20022 set of collateral*
258 *messages. The purpose is not to reverse-engineer the MT messages, although some of*
259 *the work done could surely be reused to develop such ISO 20022 collateral messages*
260 *(eg, definitions, key message elements, etc).*

261 *Additionally FIX also has collateral management messages in place that are currently*
262 *used by CCPs, investment banks, and inter-broker dealer communities.*

263
264
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266
267

- In lines 63 and 64, it is noted that the work of the FIA Post-Trade working group will be incorporated into the ISO 20002 standard. An overview of the past work of the FIA working group should be included here, as well as defining the scope of what will be leveraged from their efforts.

268

269 *At the end of 2006, SWIFT Standards conducted a gap analysis as part of its efforts to*
270 *remove Giovannini barrier One for fixed income and equities. In the meantime, the*
271 *Futures Industry Association and the Futures and Options Association committed to*
272 *improving the efficiency of post-trade processing for exchange-traded derivatives.*
273 *FIA/FOA created a Global Standards Working Group that was committed to define a*
274 *new standard that would address Giovannini Barrier One and benefit listed derivatives*
275 *market participants around the world. Additional information can be found on the FIA*
276 *website (www.futuresindustry.org). However, the work of the FIA Post-trade Working*
277 *Group is still on-going and their documents are not in the public domain. Therefore,*
278 *we suggest you to contact Mary Ann Burns from the FIA to get such information.*

279 *It should be noted that the FIA Post-trade Working Group has submitted their gap*
280 *analysis to FIX for inclusion into the FIX Protocol. Gap analysis areas that have been*
281 *submitted include enhanced support for trade reporting, collateral management and*
282 *margin requirements.*

283

- In lines 65 – 66, the ‘relevant FPL post-trade clearing messages’ should be listed, along with the current business use of each message.

286 *This is listed in Annex 1. We have updated Annex 1 to include message descriptions.*

287

- The description ‘Post-Trade messages’ is used throughout the document to define FIA and FPL messages. ISITC recommends these be changed to accurately reflect the scope of this Business Area, specifically Securities Clearing messages, or Clearing messages.

292 *Wherever relevant, post-trade has been replaced by clearing.*

293

294 In lines 134 - 136, it states that FPL will ‘assist in addressing any queries related to the
295 descriptions of the models and messages’, however it does not mention the syntax. Will FPL
296 be producing ISO 20022 and FPL models and syntaxes?

297 *The project will deliver ISO 20022 business model and message definition models that will*
298 *be submitted to the RA and SEG for approval. These models will be used by the RA to*
299 *generate ISO 20022 XML message schemas.*

300 *FPL intends to use the same ISO 20022 business and message definition models to generate*
301 *messages in the FIX syntax (whether in the traditional tag=value or FIXML Schema syntax)*
302 *where relevant to support the community of users who choose to implement FIX syntax.*
303 *Today there is an existing community of users that have implemented FIX to support the*
304 *clearing processes, in particular non-European users.*

305

306 **Comments from ECB and disposition of comments:**

307

308 The ECB, would like to make the following comments:

- 309 ▪ It generally supports initiatives aiming at removing Giovannini Barrier 1, and
310 welcomes the idea that ISO 20022 standards expand further along the trade
311 communication flow.
- 312 ▪ In order to reduce the overall effort, it recommends that FPL and SWIFT ensure that
313 the development of this message category is in line with existing as well as ongoing
314 developments in the field of settlement or reference data, where relevant.

315 *Wherever relevant, existing and ongoing developments will be considered to ensure*
316 *consistence and leverage the work done in the above mentioned fields.*

317

318

319

320 Annex 1 Inventory of related FIX messages

321 **Trade Capture**

TradeCaptureReportRequest	Query or subscribe for TradeCapture Report messages
TradeCaptureReportRequestAck	Response to the TradeCaptureReportRequest
TradeCaptureReport	Used for both reporting by firm into clearing house and by clearing house to firm to report and process trades.
TradeCaptureReportAck	Response to a TradeCaptureReport submittal.

322 **Settlement Instructions**

SettlementObligationReport	Report from clearing house to clearing firm indicated settlement obligations.
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323 **Position Maintenance (Phase 2)**

RequestForPositions	Query or subscribe for position reports.
RequestForPositionsAck	Response to a RequestForPositions.
PositionReport	Report on the current position (long and short, gross or net) from a clearing house to a firm.
PositionMaintenanceRequest	Transaction to request a change to a position.
PositionMaintenanceReport	Can be used as a response to the PositionMaintenanceRequest from clearing house to firm or from broker to customer
AdjustedPositionReport	Position adjustment report from clearing house to firm or from broker to customer.
AssignmentReport	Used by clearing house to firm or from broker to customer to report an assignment has occurred.
ContraryIntentionReport	Used to report when a position that can be exercised will not be exercised due to customer request.

324 **Collateral Management**

CollateralRequest	Used to request collateral to be assigned from the counterparty.
CollateralAssignment	Response to the CollateralRequest message. Conveys information on collateral being assigned, and replacement or substitution of collateral. May also be used to advise on margin deficiency.
CollateralResponse	Used as a response message by the party receiving the CollateralAssignment message.
CollateralReport	Used to report on collateral status when responding to the CollateralInquiry message.

CollateralInquiry	<u>Query for collateral status being held on requestors behalf by the message recipient.</u>
CollateralInquiryAck	<u>Response to the CollateralInquiry when the inquiry resulted in no information found or is an invalid inquiry (based on business rules).</u>

325

ⁱ Any messages reverse engineered from FIX Protocol will be made available in the FIX Protocol syntaxes.