BUSINESS JUSTIFICATION

FOR THE DEVELOPMENT OF NEW UNIFI (ISO 20022) FINANCIAL REPOSITORY ITEMS

A. **Name of the request:**

Triparty Collateral Management

B. **Submitting organization:**

S.W.I.F.T. SCRL ("SWIFT"),

Avenue Adèle 1,

B-1310 La Hulpe,

Belgium

C. **Scope of the new development:**

The scope of this business justification is the reverse engineering[1] of ISO 15022 Triparty Collateral Management messages (MT 527, 558, 569) and the submission to the ISO 20022 Registration Authority of equivalent ISO 20022 compliant Business Transactions and Message Sets.

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

Triparty Collateral Management Messages

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[1] Technique to 're-capture' the functionality of existing non UNIFI compliant message standards and feed it into the UNIFI models, thereby facilitating interoperability, co-existence and migration from existing messages to their UNIFI compliant equivalent.

Financial Instruments	All instruments covered by the Classification of Financial Instrument [CFI] standard (ISO 10962).
Business area	Collateral
Business Processes	Triparty Collateral Instruction
	Triparty Collateral Status and Processing Advice
	Triparty Collateral and Exposure Statement
	Cancellations and/or reversal for the above

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

D. **Purpose of the new development:**

With harmonisation industry initiatives such as Giovannini, there is an increasing pressure on the Securities industry to go from proprietary messages to ISO standards. Two ISO standards co-exist in this area, ISO 15022 and ISO 20022.

ISO "newcomers" are reluctant to invest in ISO 15022 knowing that the future is ISO 20022. ISO 15022 represents huge cost as it is based on a specific syntax requiring specific expertise and programming skills, which ISO 20022 does not. More and more current ISO 15022 users are also requesting ISO 20022 equivalent messages because the main users' communication interface is already based on XML. However, there is a legitimate resistance of other current ISO 15022 users to move to ISO 20022 due to recent investments in ISO 15022.

To find a solution to these divergent demands, SWIFT, with the support of its community, proposes to develop ISO 20022 messages equivalent to ISO 15022 to allow 'newcomers' to directly adopt UNIFI. To limit the impact on existing ISO 15022 users, the ISO 20022 messages will be directly reverse engineered from ISO 15022 messages. SWIFT will ensure to:

- design the ISO 20022 messages with mapping to ISO 15022 in mind to ensure the same levels of STP as today,

- limit the ISO 20022 functionality to the functionality available in ISO 15022 during the coexistence period, ie, it would not be possible to do something with an ISO 20022 message that cannot be done with its equivalent ISO 15022 message and vice-versa,

- during coexistence, synchronise the maintenance between the two standards in terms of time, industry representatives and content,

- provide coexistence support, eg, the necessary mapping/translation documentation.

In addition to the above, SWIFT would also undertake the following tasks:

- ensure that additional requirements identified by harmonisation initiatives such as Giovannini are included in both ISO 15022 and ISO 20022,

- design the financial instruments identification and attributes based upon the ISO 19312 Securities Data Model as defined by ISO TC 68 SC 4 WG 11.

- maintain the same levels of STP with the same functionalities between the two ISO standards to meet the needs of the securities industry.

E. **Community of users:**

The targeted community consists of the securities players that are involved in the Triparty Collateral Management exchanges: Triparty agents and their clients.

Benefits to users:

- Triparty Collateral players that have not implemented ISO 15022 will be able to save a huge cost by not implementing ISO 15022 (specific syntax requiring specific expertise and programming skills).

- For current ISO 15022 users, the strict reverse engineering approach (with mapping to ISO 15022 in mind) and the extensive coexistence support, will enable easy translation of their ISO 15022 messages in ISO 20022, while at the same time providing an eased migration to ISO 20022.

- Creating ISO 20022 equivalent messages and maintaining this equivalence of the two standards during the coexistence period will limit the cost of migration for current users of ISO 15022 and the cost of coexistence. Indeed, this will allow for easy translation from one standard to the other, thereby allowing users of one standard to communicate with users of the other standard without need to support the two standards. Triparty agents will therefore be able to adopt ISO 20022 without having to maintain ISO 15022 until their last client migrates.

F. **Timing and development:**

The availability of ISO 20022 messages will be critical for the success of harmonisation projects such as Giovannini Barrier 1 removal. In order to be Giovannini compliant by 31 March 2011, all participants involved in European cross-border transactions must be able to exchange either ISO 15022 or ISO 20022 standards.

The objective is to have the candidate ISO 20022 Triparty Collateral Management messages submitted to the RA at the same time as the candidate Corporate Action and Settlement and Reconciliation messages during Q2 2009.

Representatives from key triparty agents such as Euroclear, Clearstream and The Bank of New York Mellon, will be invited to participate in the development and a SWIFT Business Validation Group will be composed to ensure involvement of the worldwide community.

G. **Commitments of the submitting organization:**

SWIFT confirms that it will:

- Undertake the development of the candidate UNIFI 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 UNIFI website.

SWIFT is planning to organise a 'pilot testing' and the actual implementation of the messages.

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

SWIFT confirms its knowledge and acceptance of the UNIFI 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:**

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Swiss comments:

The Swiss community welcomes this Business Justification. We do not have any additional comments

Disposition of Swiss comments:

SWIFT welcomes the support of the Swiss community.

UK comments:

The UK has no comments.

Disposition of UK comments:

SWIFT welcomes the support of the UK.

French comments:

"No comments on the contents. The French market welcomes the initiative."

Disposition of French comments:

SWIFT welcomes the support of the French market.

ISITC comments:

ISITC is not aware that the existing MTs supporting this business process are widely used in the US Market. However, the ISITC Broker/Dealer and Investment Manager communities boast many large global organizations. It is likely that these organizations support the existing MTs in other areas of their operations.

Depending on the level of interest among our membership ISITC may be interested in participating in the modeling and message design process.

Disposition of ISITC comments:

Due to the specificity of the business, SWIFT is aware that there are not a lot of players involved in this process. However, this project aims at completing the reverse engineering of ISO 15022 messages started under other, previously approved business justifications. The goal is to ensure that existing ISO 15022 users will not miss any functionality in ISO 20022 and that future users will benefit from an as complete offering in ISO 20022. SWIFT will be happy to involve ISITC in the message design process if ISITC users are identified as tri-party collateral message users.