BUSINESS JUSTIFICATION

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

Name of the request:

Securities Transaction Regulatory Reporting

Submitting organization:

SWIFT scrl

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Scope of the new development:

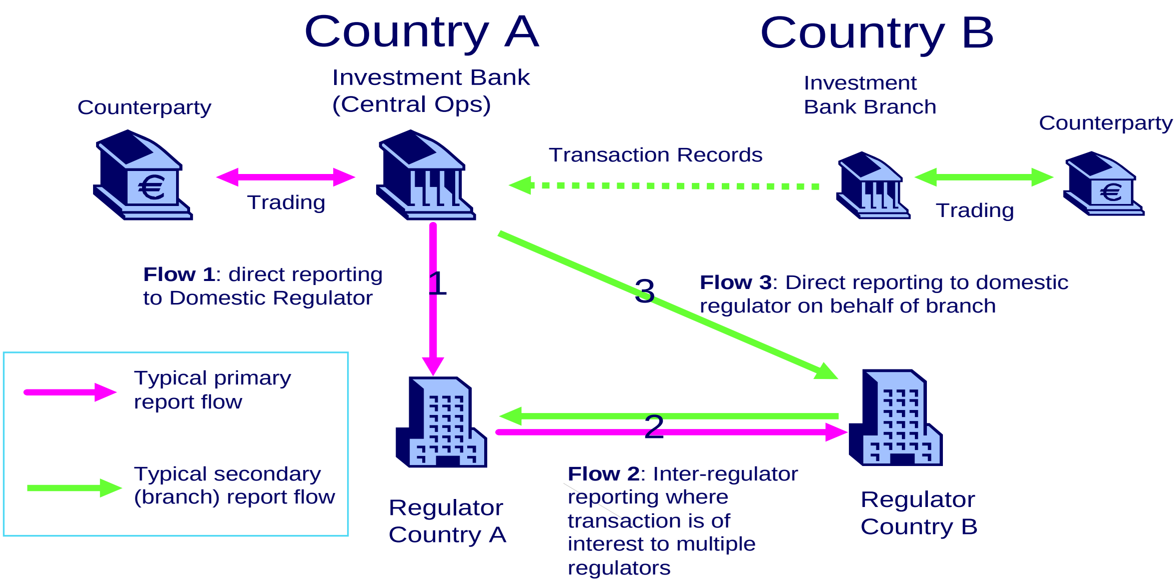
Article 25 of MiFID (Markets in Financial Instruments Directive) mandates the reporting of financial transactions to regulators in each EU market and the sharing of such information between regulators, where relevant. The financial instruments that are in scope include equities, fixed income and derivatives.

By November 1st 2007, all 27 EU Regulators plus those in the 3 EEA states (Norway, Lichtenstein and Iceland) subscribing to MiFID, must implement mechanisms enabling investment firms to report transactions to them. Furthermore the Regulators must implement a system to exchange transaction reports between themselves where a transaction is relevant in more than one market.

MiFID is the catalyst for the requirement for regulatory reporting, but clearly the messages developed could be used for non-MiFID related regulatory reporting. However, given the MiFID deadline of November 2007, SWIFT proposes to approach the creation of ISO messages in two phases:

1. To create messages that cater for the needs of investments firms and regulators complying with the requirements of the MiFID
2. To review and expand the message set so that it meets more global requirements.

Message flows



In the diagram above, the potential flows are:

Flow 1 – Direct local reporting to domestic regulator A

Flow 2 – Regulator A cross border reporting to other regulator B, where relevant

Flow 3 – Central operation cross-border reporting on behalf of branch to regulator.

The proposed transaction regulatory reporting messages will be usable in flows 1, 2 and 3 above.

Message content

The message development must allow for the mandatory data elements that have been defined in the MiFID directive. Some regulators will also require additional information, as permitted under MiFID. In a first phase, SWIFT will work closely with CESR and the regulators to define the full set of data elements that will capture the requirements of all EU/EEA regulators who have published their requirements by the end of Q1 2007.

In a second phase, SWIFT will seek to incorporate the requirements of all other stakeholders.

Purpose of the new development:

Whilst some markets have relatively sophisticated direct regulatory reporting mechanisms, others have little or no reporting infrastructure. MiFID stipulates that: *"the reports of transactions in financial instruments shall be made in an electronic form except under exceptional circumstances"* and so all EU markets must make arrangements to permit electronic transaction reporting if they do not do so already. This will provide an ideal opportunity to implement standardised messages as even those markets with well developed infrastructures suffer from lack of standardisation of the formats of reports they receive via multiple reporting channels.

Whilst some regulators already have reporting mechanisms in place, others have to build new solutions to meet regulatory requirements. Given the very short timeframe as well as the relative lack of clarity regarding the extra data elements that each regulator will require, SWIFT believes that the industry would benefit from an industry initiative leading to the creation of an open, ISO standard.

Community of users:

Within the EU area, the community of users consists of the 30 securities market regulators and all the institutions (sell and buy side firms) that need to do transaction reporting.

The benefits of a standard transaction regulatory reporting message set are:

1) For institutions: One message that can be reported to any regulator over any reporting mechanism from any part of the institution. This will allow easier automation and reduce processing effort to a standard process.
2) For regulators: Will receive all reports in a standard format eliminating ambiguity, making data processing a more standardised operation and facilitating the sharing of data with other regulators.

Currently all the existing regulatory reporting is in proprietary formats.

The total volume of potential messages in the transaction reporting space is considerable. The volume of reported transactions based on current market activity for the three major markets is estimated below:

Market	Average Daily Trading Volumes*	Average Daily Transaction Reporting Volumes Estimates**
Euronext	300,000	2,500,000
UK	270,000	1,700,000
Germany	340,000	2,500,000
Totals	**910,000**	**6,700,000**
	*Source: World Federation of Exchange Members (2005)	**Sources: FSA, AFM, BaFIN

As MiFID both encourages trading growth and mandates all participants in each EU market to report each transaction, post-MiFID message volumes can be expected to increase substantially beyond the above levels in these major markets and indeed in all markets throughout the EU.

As and when these messages are adopted by the rest of the community beyond the EU, the potential for the usage of standard transaction regulatory reporting messages will further increase.

Timing and development:

MiFID is due for implementation on 1st November 2007. If ISO messages are not available by this date, then each regulator will deploy its own proprietary standard. This will result in considerable cost and complexity for reporting firms that are obliged to report to more than one regulator. Adoption of ISO messages in every market would, however, be expected to take place over time, since some markets already have regulatory reporting mechanisms and would not be in a position to change format on day one. However uptake should be steady based on the legal requirements enforced by MiFID, the fact that transaction reporting to this level will be new in many markets and the issues that arise when multiple standards are used.

In addition, we hope that CESR will be persuaded to recommend the use of ISO messages between regulators, since this will facilitate the sharing of data and avoid the complexity of having to translate between multiple formats.

SWIFT plans to have candidate messages available for submission to the RA by Q2 2007, the objective being to enable usage by November 2007. SWIFT has already started work on gathering requirements for these messages, in close consultation with securities markets regulators, most especially the CESR technical committee, and other stakeholders such as the MiFID Joint Working Group and investment firms who will need to report to the regulators.

The aim is to reach agreement on a set of messages that can be processed by all parties, but which retains sufficient flexibility to support market practices in the leading markets.

Given the very short time frame, the initial focus will be to develop a set of messages to enable EU market participants to meet their MiFID regulatory requirements. However, it is envisaged that these messages should be developed so that they meet requirements on a global basis.

Commitments of the submitting organization:

SWIFT confirms that it can and 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 ready to consider organizing a 'pilot testing' of the 'Beta version' of the messages once the related documentation has been published by the RA, subject to further clarification by the RMG of what such testing entails.

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".

Contact persons:

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Comments received from RMG members and disposition of comments proposed by the submitting organisation

This business justification has been submitted to the RMG for comments on 31 January 2007 with a response deadline of 28 February 2007, extended to 5 March 2007.

Austria, Switzerland and ISITC sent comments which are reproduced and addressed below.

<u>Comments from Austria</u>

Please clarify and update the status:

- When will SWIFT expect a positive commitment by CESR?
- What if CESR would resist recommending the use of ISO messages between regulators?

<u>Response</u>

Since the submission of this business justification, CESR has not confirmed to us that they will be adopting the ISO standard for inter-regulator reporting.They are reluctant to be drawn at this stage as to what standard they will use, although they have asked to see our messages.

CESR views the issue of the standard to be used for reporting by investment firms into individual regulators (flows 1 and 3) as a seperate issue. Individual regulators are free to adopt whatever standard they wish in their own markets, irrespective of the standard used by CESR for inter-regulator reporting. Even if inter-regulator reporting (flow 2 in our diagram above) does not – or is slower to - adopt the ISO standard, we believe that there is value in standardising the flows between the reporting institutions and their regulators by offering one message that can be used over any reporting mechanism from any part of the institution.

<u>Comments from Switzerland</u>

Switzerland supports the BJ Securities Regulatory Reporting.

We assume that the regulators are actively involved in this process and they support this development.

We assume that SWIFT has a confirmation of all EU - regulators that they will accept these reports in the new standards and over defined networks (not only SWIFT).

For the transaction reporting new messages should be developed and should not be a 'enlarged copy' of a MT502.

<u>Response</u>

We do not have commitment from all the EU regulators that they will adopt this standard but discussions are continuing with individual regulators. CESR has not indicated the standard that they will use to share data between regulators, and this could be a proprietary format. In all discussions the issue of the adoption of the standard is clearly indicated to be network independent, and regulators may well choose to use the standard over the internet, VPNs or SWIFT according to preference.

Generally, the EU regulators that we have contacted support the concept of the development of an ISO message, in particular to cover the flow between themselves and their local reporting institutions (flow 1). However, given the very short timeframe before November 2007, they may not be able to commit to the immediate adoption of the standard. We expect a gradual take-up of the ISO solution.

The regulatory reporting messages will be developed based on the 23 mandatory CESR fields plus any local reporting requirements. The message will not be an "enlarged copy" of the MT502.

Comments from ISITC

1. ISITC requests that SWIFT address why a two phased approach to the message/content analysis is being proposed.
    a. As stated in the Business Justification, SWIFT is limiting the participants who would be involved in the Phase 1 analysis to CESR and regulators. This appears to be too narrow in scope. The move to a broader constituency would allow for greater feedback and potentially scale back the need for a 2nd phase.
    b. In SWIFT's approach for Phase 1, the goal is stated as 'defining the full set of data elements'. If a second phase was required, ISITC would like SWIFT to clarify what 'requirements of all other stakeholders' would comprise? Additional data elements or new messages?

2. In the Purpose of the new development section, SWIFT describes the need to incorporate regulator-specific data elements in the standard.
    a. ISITC would like clarification from SWIFT on when they expect this analysis to occur - in Phase 1 or Phase 2
    b. If in Phase 2, how does SWIFT envision incorporating any required changes? Ex. prioritizing countries?

Response

1a. The reason why we propose a two-phase approach is to meet the MiFID deadline of November 2007. We believe that a critical success factor is to deliver an ISO message in time to meet the new regulatory reporting requirements of the EU reporting firms.

1b. Phase 2 may comprise both additional elements and additional messages – this will depend on the analysis of additional requirements.

2a. The analysis for EU regulators will occur in phase 1. The requirements from non-EU regulators will be analysed in phase 2.

2b. During phase 2, SWIFT will pro-actively seek the input of the countries/players that are identified based on input from both the SWIFT community and the SEG – but the process is an open one and comments from any other parties will be taken into account.