

Comment

An overview of standardisation and market practices harmonisation in the Asia-Pacific region

Alexandre Kech

Received: 22nd April, 2014

Securities Market Infrastructures, APAC, SWIFT;
Tel: +65 6347 8051; E-mail: alexandre.kech@swift.com



Alexandre Kech

Alexandre Kech is Director of Securities Market Infrastructures, APAC at SWIFT, responsible for SWIFT's strategy and offering for SMLs in the region. SWIFT services more than 80 SMLs worldwide (T2S, DTCC, ASX, JASDEC, SGX, LCH-Clearnet, KSEI, BSE, etc), providing a variety of services ranging from network connectivity and integration products to ISO standards consulting. Alexandre was previously Head of Standards APAC, leading a team of business analysts managing the definition and implementation of SWIFT, ISO 15022 and ISO 20022 standards covering securities, trade finance, treasury and payment processes. Prior to SWIFT, Alexandre worked for the Bank of New York in Brussels.

ABSTRACT

Standardisation and harmonisation of practices is finally happening in Asia Pacific. This paper reviews the latest developments in the standardisation and harmonisation of market practices in the Asia-Pacific region, with a particular focus on ISO 20022 standards-related projects. The author describes the back-ground and reasons of these standards adoption initiatives, and stresses how important it is that more takes place. He also advocates for the need for each financial institution to define an international standards adoption strategy and roadmap.

Keywords: *standardisation, ISO 20022, harmonisation, SGX, JASDEC, ISO 15022, ASX, SWIFT*

The following acronyms and numbers are becoming part of the vocabulary of market infrastructures and financial institutions in the Asia-Pacific region and, believe it or not, this is good news for the region:

- the International Organization for Standardization (ISO) 20022 (universal financial industry message scheme);
- ISO 15022 (securities scheme for messages);
- Securities Market Practice Group (SMPG);
- Regional Market Practice Group (RMPG);
- ASEAN + 3 Bond Market Forum (ABMF); and
- ISO 17442 LEI (legal entity identifier).

These international standards or market practice harmonisation initiatives are currently paving the way for a more efficient, straight-through, transparent, operationally



Figure 1 Adoption of ISO 20022: Securities market infrastructure — an incomplete overview

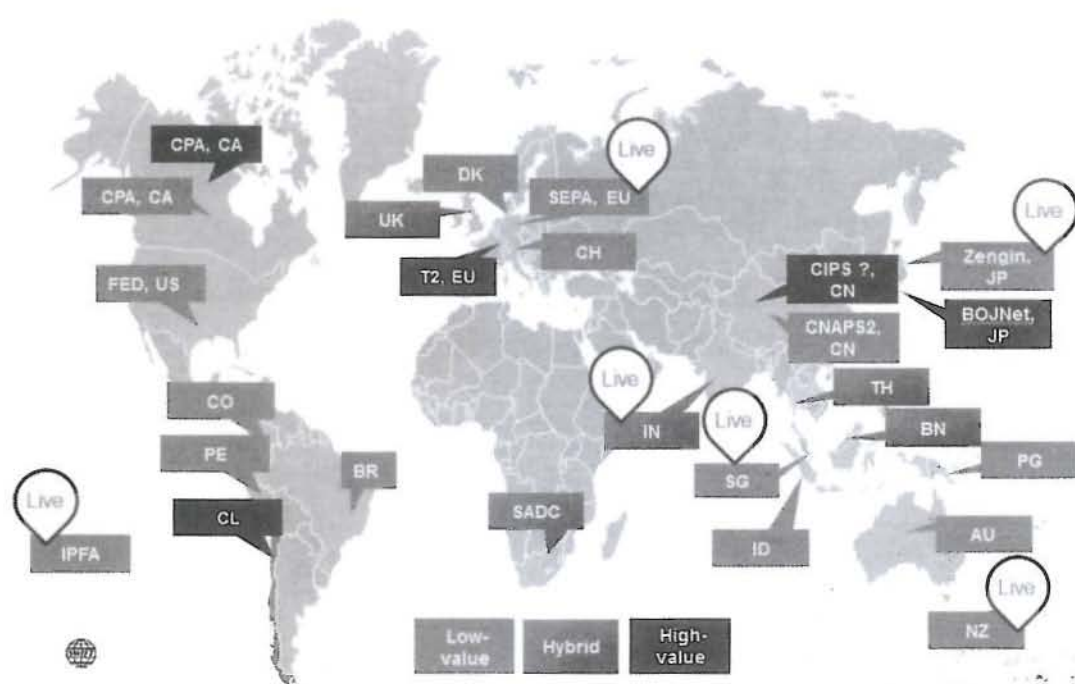
risk-free and harmonised securities post-trade environment in the Asia-Pacific region. This paper will discuss the latest developments from the many regional and local standardisation and market practice harmonisation efforts in the Asia-Pacific region, with a particular focus on what the author knows best: ISO 20022 standards-related projects.

MOVING FROM PROPRIETARY TO ISO 20022 (OR ISO 15022)

Only three years ago, if ISO 20022 was mentioned, most financial market standards savvy people would ask: 'Interesting ... but is it really being used anywhere?' The answer today is clearly yes, and Asia-Pacific securities market infrastructures and their participants are leading the way not only at the regional level but also at the global level, as shown in the adoption map depicted in Figure 1.

On the clearing and settlement side, in January 2014, Japan Securities Depository Center (JASDEC) — Japan's central securities depository (CSD) — became the world's first major securities market infrastructure to implement ISO 20022 for clearing and settlement communication with its participants. The Singapore Exchange (SGX) will come next, with the availability of an ISO 20022 settlement API. Other securities market infrastructures, such as the Australian Securities Exchange (ASX) or PT Kustodian Sentral Efek Indonesia (KSEI, Indonesia's CSD), are also seriously considering adoption of the ISO 20022 standard for clearing and settlement in the coming years. Discussions are taking place at literally all CSDs around the region to establish an international or regional standards adoption strategy. Meanwhile, ISO 15022 remains the standard of choice for some CSDs like the Vietnam Securities

Figure 2 Adoption of ISO 20022: Payments market infrastructure and initiatives — an incomplete overview



Depository, which recently launched a straight-through processing (STP) initiative based on local implementation of the standard. The momentum is there and will only continue to build.

On the asset servicing side, the Tokyo Stock Exchange, SGX and ASX again have launched or will launch this year a corporate action market data service using ISO 20022 (SGX will start offering ISO 15022 followed by ISO 20022 a few months later), joining other exchanges (the Thailand Securities Depository, Mumbai Stock Exchange (BSE), KSEI, etc) which have launched ISO 15022 versions of such services in recent years. ASX and SGX projects also include an issuer-to-investor golden copy concept that will see the issuers announcing their events via an ISO 20022-based GUI, enabling the STP of SMPG-compliant announcements by the exchanges and their market data service subscribers. There is more happening on

the collateral management and, of course, the investment funds side of the business, which was the first securities domain to start global adoption of ISO 20022 more than five years ago.

As illustrated in Figure 2, a similar move is taking place on the payment, trade finance and foreign exchange (FX) side of the business, with Asia-Pacific countries like India, China, Japan, Indonesia, Thailand, Brunei and others adopting ISO 20022 for their high and/or low-value payment infrastructures. The Bank Payment Obligation (BPO) — a new trade finance solution jointly developed by SWIFT and the International Chamber of Commerce's Banking Commission — is built on ISO 20022. And Continuous Linked Settlement (CLS) — the FX settlement infrastructure — soon will be operating based on the extensible mark-up language (XML)-based standard. More information on the level of adoption is now available on the ISO

20022 adoption mApp — a free iPad iOS app that SWIFT has created to provide the details of more than 80 known adoption initiatives globally.

WHAT PUSHES SECURITIES MARKET INFRASTRUCTURE TO ADOPT ISO 20022?

There is more than one response to this question. One important reason is the renewal of an ageing infrastructure. When an SMI needs to spend millions on a new clearing and settlement infrastructure or launch a new innovative service (such as a golden copy corporate action announcement service), it also wants its new leading edge service to be future-proof and adopt the latest business and technological standards. ISO 20022 therefore becomes not just the logical but the preferred choice. At the same time, it is often the opportunity to adopt SWIFT as an alternative channel for local connectivity not only to align with international and regional participants but also to help local players become more regional or even global. Many of these local participants already have a SWIFT connection to support their clients. An SMI allowing access via SWIFT enables these participants to reuse their SWIFT infrastructure, thereby lowering their overall total cost of ownership, increasing their efficiencies and reducing operational risks.

Business development through internationalisation is another driver for SMIs to adopt ISO 20022. Communicating with local participants in a proprietary local language is acceptable, but, across international borders, an SMI will have to use an international language (eg ISO 20022) and an international network (eg SWIFT) if its objective is to attract more international players and open up the market.

Best practices and operational principles published by international groups from

the private sector (eg the G30) and the public sector (eg the Committee on Payment and Settlement Systems and International Organization of Securities Commissions (CPSS-IOSCO)) list the adoption of international standards as essential for an infrastructure that is serious about its business. Such public support for international standards such as ISO 20022 contributes to its adoption.

In the Asia-Pacific region, regional harmonisation initiatives, such as ABMF and ASEAN Linkage, also lead to some level of market practice harmonisation and ISO 20022 usage discussions. At the ABME, which is a forum aimed at proposing a harmonised and standardised bond post-trade model for the region (among other objectives), the alignment of practices and use of ISO 20022 and other ISO standards, such as the International Securities Identification Number (ISIN) or the Business Identifier Code (BIC), is clearly positioned as a major enabler of the ABMF vision. ASEAN Linkage, on its post-trade side, has not yet engaged in a review of market practice harmonisation and ISO 20022 standards adoption, but, considering the nature of this cross-border regional project and what has been happening at some of the participating exchanges, some discussions should take place very soon.

WHY ISO 20022 AND NOT ANOTHER STANDARD?

The ISO 20022 standard itself is somewhat driving its own adoption. It is the standard that business analysts, IT architects and implementers have been looking for. First, ISO 20022 covers the entire financial industry: payment, trade finance, FX, payment cards, securities, etc. Standards such as ISO 15022 (FIX or FpML), for example, only cover securities and derivatives. Secondly, ISO 20022 is a

business standard, not only a messaging standard. It is made up of a financial dictionary of standardised business terms (and derived technical constructs) and a set of described business processes and flows. It therefore can be used as a base for internal data enterprise architecture, similar to standardised glue between the many applications run by financial institutions.

Of course, ISO 20022 also can be used to communicate with counterparties, clients and market infrastructures in a standardised but much richer and more flexible way than in the past. It enables the local implementation of a truly international standard, which makes a big difference in a fragmented financial and banking environment across different Asia-Pacific markets.

The local specificities can be easily formally captured in tools such as MyStandards, a community platform accessible to every participant where base standards are published, as well as the market practices that go with it. This encompasses global practices (eg SMPG) as well as local practices published by National Market Practice Groups (NMPGs) as well as directly by an SMI. Many SMIs, such as Target 2 for Securities (T2S), JASDEC, ASX and SGX, have published or will publish their standard usage specifications on MyStandards, which enables their common participants to view and compare various specifications from one single source. XML schemas can be downloaded for implementation and a new testing module has been launched recently to enable, for example, SMI participants to test their compliance with their market infrastructure requirements. All of

these were made possible by the underlying technical layer of ISO 20022 — XML — an IT-friendly format most software can deal with and for which it is easier to find the supporting IT resources.

WHAT DO SMI PARTICIPANTS THINK ABOUT ISO 20022?

The reaction of SMI participants to the adoption of ISO 20022 has been cautious at first, if not negative. The 'ain't broken, why change' attitude was prevailing; however, as more SMIs around the world are adopting the standard, and more corporations are pushing their banking colleagues to speak ISO 20022 with them, attitudes are evolving towards more serious consideration about the benefits that ISO 20022 can bring to them. SWIFT, for example, is observing increased Asia-Pacific participation in standards forums and market practice groups (where standard usage and practice harmonisation are discussed). In the securities world, ISO 15022 remains mainstream but ISO 20022 is becoming increasingly more a topic of discussions at NMPGs around the region and, as mentioned previously, regional forums such as the ABMF.

If an institution is not yet involved in an NMPG, the Asia-Pacific RMPG, or, why not, the ISO 20022 standard committees (ISO 20022 is an open standard to which everyone can contribute) it is the right time for it to consider involvement. Standardisation and market practice harmonisation may be a long journey but it is happening now and, in some Asia-Pacific markets, it is happening really quickly as well.