



# SWIFT Securities Strategy Update

Update to Securities Market Practice Group

14 April 2021

# Agenda

- I. Recap why / vision / building blocks**
- II. Update on co-creation journey and Focus 2021**
- III. Zoom-in on the UTI**
- IV. Q&A**



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With a mutualised and integrated solution, we allow our customers to focus on growing their business

## Our goal: address 2 main Industry challenges

### POOR IN-FLOW FAIL MANAGEMENT

*~30% linked to incorrect/incomplete data  
~50%+ linked to shortage of cash/securities*

### POOR FAIL RESOLUTION EXPERIENCE

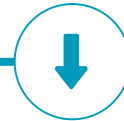
Mutualised services to reduce friction, failure, duplication, manual processing and penalties



Enhanced customer experience in exchanging post-trade data



Optimized liquidity and asset across business lines



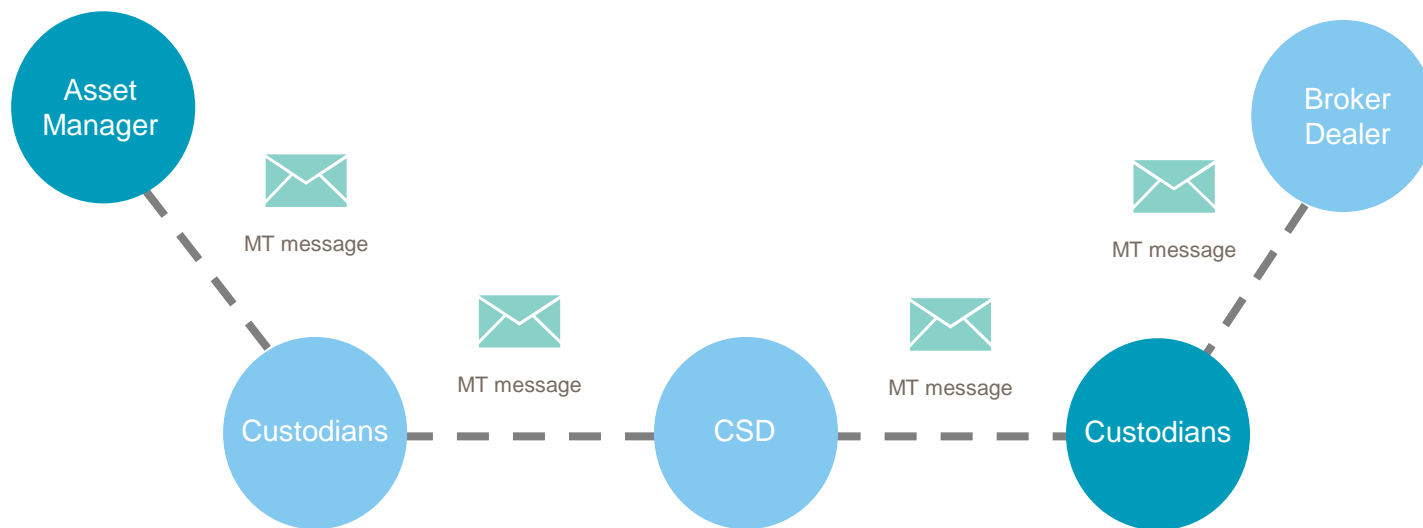
Integrated business features for seamless processing



## Today

Financial institutions today can modify data along the transaction lifecycle  
– the SWIFT infrastructure operates on messages, not transactions

## Securities Example



— — — MT Message flows (over SWIFT network)

## Implications

**SWIFT only acts on messages** and does not facilitate or validate the *transaction*

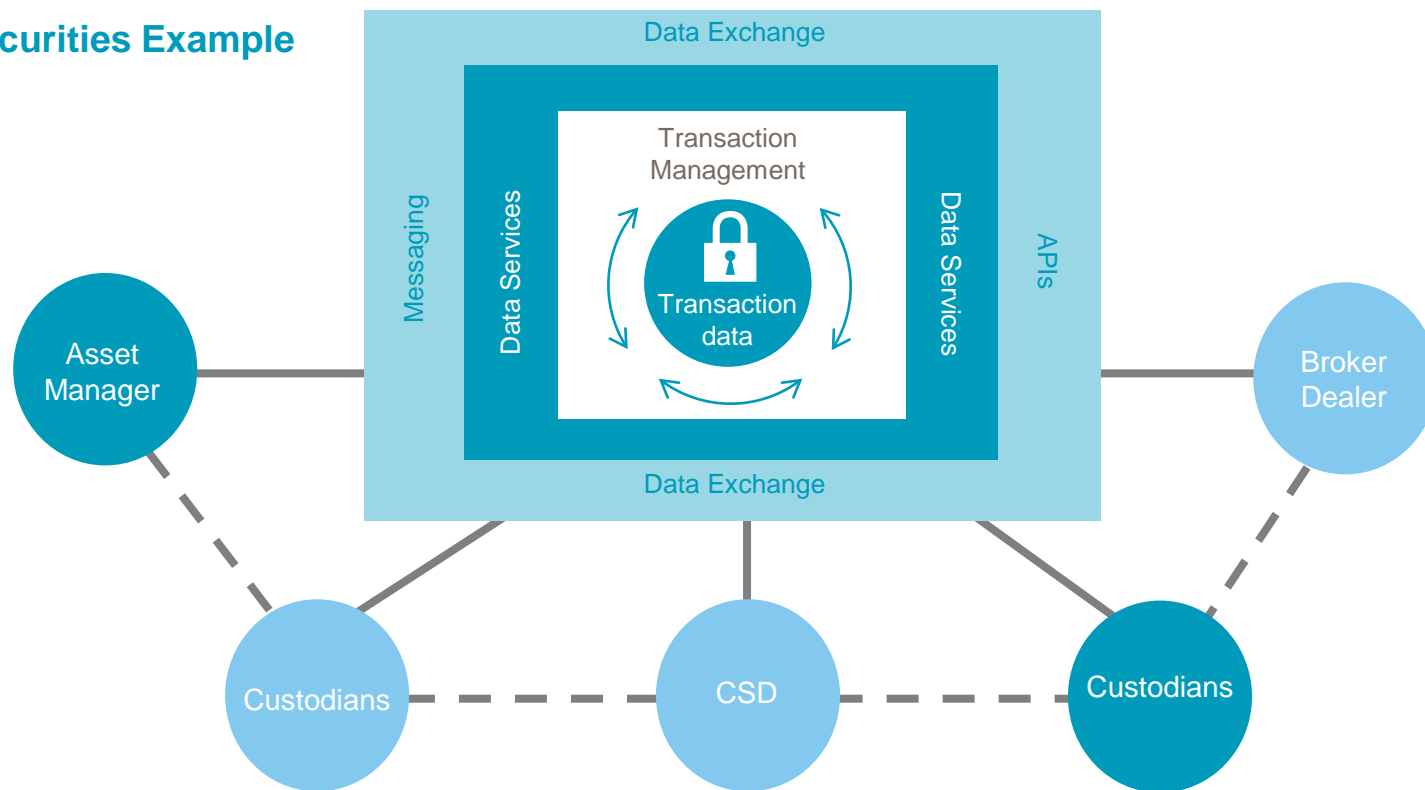
**Weakest link issues** as the least rich message format in the chain is received by the beneficiary



## Tomorrow

SWIFT will enable all customers in a transaction to communicate in multiple formats and will be backwards compatible with existing infrastructure

### Securities Example



### Implications:

**Business Enabler** – access to new value add data services to support growth and greater efficiency

**Reduced Friction** – better customer experience, increased efficiency, mutualized services

**Rich Data and Analytics** – improved data quality and guaranteed transaction integrity

**A state of the art technology platform**

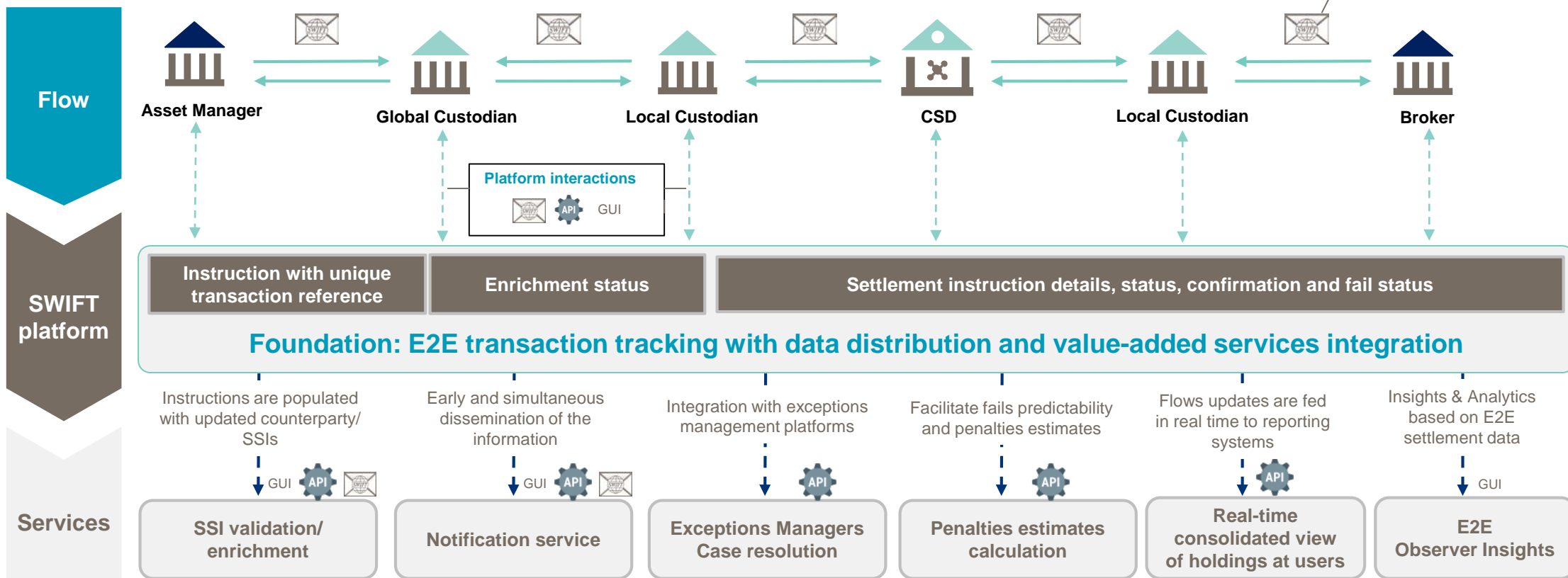
- End-to-end transaction integrity
- Backwards compatibility
- Rich open ecosystem



# SWIFT Securities Strategy

## Co-building the foundation layer: the Securities Monitoring Service

- Instruction
- Status
- Confirmation



# Why joining the journey now?

## Benefit from incremental value

### To shape the foundation of transaction management

- Be first to shape the service together with a global community
- Enhance your own capabilities with two-side tracking & visibility
- Draft rulebook or SLAs including roles & privileges of each actor
- Agree on scope of the backward compatibility/central translation (including API-message)
- Build the API library for the tracker and other services

### To define the roadmap to track or manage new flows

- Corporate actions, proxy voting
- FX
- Link with securities-related cash movements
- Collateral movements

### To propose best partnerships

- Matching and trading platforms
- Front-end (OMS/PMS) or investor portals
- Exception management & case resolution
- Data validation or enrichment
- Predictive analytics

### To agree on future functionalities

- CSDR-related features (penalty calculation, fails predictability)
- Free format transformation
- “Observer” features: rulebook/SLA compliance
- Enhanced data services including consolidation and consent management for data (holdings, etc)





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## A representation of industry experts



36 Members

- BBH
- Blackrock
- BNP Paribas
- CACEIS
- China AMC
- Citibank
- CME
- Credit Suisse
- Crest
- Deutsche Bank
- Deutsche Boerse / Clearstream
- Euroclear SA/NV
- Euronext
- Goldman Sachs
- HKEX
- HSBC Bank
- ICBC
- JP Morgan Chase Bank
- LCH
- Mizuho JP
- Morgan Stanley
- MUFG
- NAB AU
- Northern Trust
- NSD
- PNC
- Santander Securities Services
- SCB SG
- SEB
- Societe Generale
- State Street
- Strate SA
- Bank Of New York Mellon
- TSD
- UBS
- Vanguard



# Securities Monitoring Service - where are we?

## 2021 focus areas

### Strategic vision

- Drive efficiency, reduce manual/cost-driven activities, & enhance customer experience
- With “**smarter**” **processes, communication mechanisms & services**
- On top of a **foundation layer** the **Securities Monitoring Service**

### Industry maturity

- The foundation requires
- **scaled adoption of UTI as the most future-proof unique identifier**
  - across the securities chain
  - at Industry level

### Working Group / engagement conclusions

- SWIFT to focus on delivering **greater value** fully leveraging the UTI investment:
- link, track and provide **visibility on the 2 legs of a transaction**
  - prepare for market moves to **T+1 / real-time settlement**
  - act as **single window** for accessing other platforms

### 2021 focus areas

- Continue as per initial timeline with **quick wins on the CSDR front**
- Cater for a **UTI adoption period in 2021 and 2022** that SWIFT can facilitate with market engagement, thought leadership & detailed articulation of benefits/potential
  - Confirm **5 to 7 pilots** to demonstrate value through prototype/MVP
  - Start discussions on the **rolling pipeline** of features leveraging the foundation layer post-2022



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# Unique Transaction Identifier (UTI)

## Origin

- **2009:** The G20 Leaders agreed that all over-the-counter (OTC) derivatives contracts should be reported to Trade Repositories (TRs) as part of their commitment to reform OTC derivatives markets. This to improve transparency, mitigate systemic risk and protect against market abuse. Following this commitment, the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) launched several working groups to harmonize the reporting requirements and standardize the required data elements: this included the Unique Transaction Identifier, Unique Product Identifier and other critical data elements.
- **2012:** The Unique Swap Identifier (USI) was introduced in the US, with the Dodd–Frank regulation, making reporting of transactions to TRs mandatory. The USI is a globally unique identifier for individual transactions in financial markets. Strictly speaking, the term USI is specific to the U.S. regulation, while UTI is specific to EU regulations. In practice, both terms are used interchangeable, in particular within large trading firms reporting under both regimes.
- **2014:** With the European Market Infrastructure Regulation (EMIR) Europe followed suit with reporting UTIs to TRs from February 2014 onwards.
- **2020:** The UTI became an official ISO standard and got published under reference ISO 23897.

## Purpose

- The primary purpose of the UTI is to uniquely identify individual OTC derivatives transactions required by authorities to be reported by trading firms to TRs.
- Its mandatory use is expanding as part of an international regulatory push (CFTC Regulation, EMIR, SFTR Regulations,...).
- UTI has been added by SWIFT to settlement messages with SR2019 and will be added to collateral messages with SR2021.



## UTI Conclusions and adoption

- **UTI was agreed as tracking reference by the user group**
- **Next steps:**
  - Define an expert group to brainstorm on the adoption scenarios and business case for adoption. In parallel an expert group will define the product specifications and rulebook.
  - This should allow us to get a perspective on the individual implementation plans. Targeted for 2022.
  - Our goal is to leverage the work done by DTCC CTM to populate the UTI at trade and allocation level as well as in the settlement instructions send by CTM, which is targeted for Q3 this year. This could form the basis of a first community.
  - We hope to get to a similar approach with EuroNext and HKEX, as well as for FIX flows on the longer term.
  - We also need to create a campaign to foster UTI adoption, once board approval reached.



# Benefits of UTI usage in enhancing E2E visibility – operational benefits

**Our goal:** Foster better **E2E visibility** to identify any potential fails **earlier** in the chain, with the aim to meet the deadlines of shorter settlement periods

## ☐ **Two-side visibility and earlier notifications** - relevant for cross border transactions and in a T+1 world

- Possibility to proactively intervene and correct issues: SSI correction, run investigation as early as possible
- Reduce/avoid penalties linked to fails especially to meet the deadlines of shorter settlement periods
- UTI to link exceptions across institutions

## ☐ **Audit trail to trace history of transaction**

- Investigate potential cause of fails and in case of claims linked to settlement discipline (CSDR)
- Evaluate overall performance and assess metrics to target recurring causes of issues

## ☐ **Offer contingency and reconciliation solutions**

- In case of system issues at the level of the intermediaries (E2E GUI as back up solution)
- Easier front to back reconciliation with more granularity thanks to **UTI** usage:  
providing a link between original trade ID, UTI and penalty ID

## ☐ **Offer better client service and client experience**

- By exposing E2E data in existing service portals used by clients



## UTI adoption events

Event	Adoption impact	Likelihood to happen
Trading/matching venues generating UTIs	High	Very likely
FIX flows participants generating UTIs	High	Likely
Mandatory SWIFT standards release	High	Likely
Adoption within a SWIFT Closed user group of early adopters	Medium	Unlikely
Regulatory push (like SFTR)	High	Unlikely

### Most likely adoption path (work in progress)

Adoption by:

1. Trading venues (Euronext, HKEX) and matching engines (CTM) and their owned CSDs
2. Asset managers and broker/dealers & IB
3. ICSDs & global/local custodians
4. Other CSDs / markets





## Benefits of UTI usage in enhancing E2E visibility – cost saving

Do you agree on the following cost savings areas linked to UTI usage in E2E?

- ☐ How much savings due to shorter investigation and resolution times thanks to E2E offering full visibility throughout the settlement chain?
- ☐ How much savings due to UTI and E2E helping reduce the number of inquiry cases?
- ☐ How much savings due to an easier front to back reconciliation process thanks to UTI?
- ☐ How much savings due to less penalties for clients of servicing institutions? knowing that 2% fail of all transactions in a year => 3Billion USD according to statistics\*

Do you see other areas where E2E can bring more cost savings?

\*source: ECB and ECSDA



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## Overall context: Securities markets, a multi-trillion industry that operates at low profits

### Low margins

Despite being a multi-trillion dollar business **expected to grow by 40-70%**, securities markets operate at an **average of 10% margin**, continually under pressure.

### Cost pressure

As a result, **priority projects are related to cutting costs by 2-3%** but the industry won't be able to cost-cut their way to higher profitability. This is where the pressure on new business models and products begin: **projects to remove inefficiencies and friction become the most important ones.**

### Shift in focus

However, until the next phase of regulation comes along, the regulatory crunch is winding down and technology is the new focus. Investment in technology will be driven by **(1) a continuous focus on cost reduction and enhanced customer experience** as a tactical step and **(2) innovation to generate new sources of revenues** on the longer run.

### Foundation for the future

On top of addressing inefficiencies, market participants will need to prepare for an environment where **assets will be tokenized** and **transactions will move towards instant**, with impact on the whole securities processing chain.

Sources: The New Financial Global Capital Markets Growth Index, Accenture, BCG



# The cost of inefficient processes will become unbearable because of CSDR penalties

The inefficiencies in **reconciliation, reporting and asset servicing** generate massive costs and risks

~\$3billion in direct losses every year with **\$900+ billion in equity transactions** and **\$300+ billion in fixed income trades** at risk annually (ECSDA)

Firms keep trying to **manually reconcile different views on the same information** on holdings and trades

Trade support staff spend **5.5 hours a day and 174 days working on settlement fails handling alone** (Aite)

**All of our customers pay indirect costs.** The fragmentation coupled with long settlement cycles and low end-to-end visibility, hamper liquidity and asset management.

The cost of doing nothing was bearable in the past, but **as from 2022**, with the new regulatory requirements, it can put players **out of business**

Today, the daily value of fails could be as high as €100 billion, leading to penalties of anywhere between €1 million and €10 million a day (ECB). Buy-ins expenses can go up to €1.8 million a year for transaction that worth more than €2.5 trillion a year (ESCDA)

**Investors feel the pain**

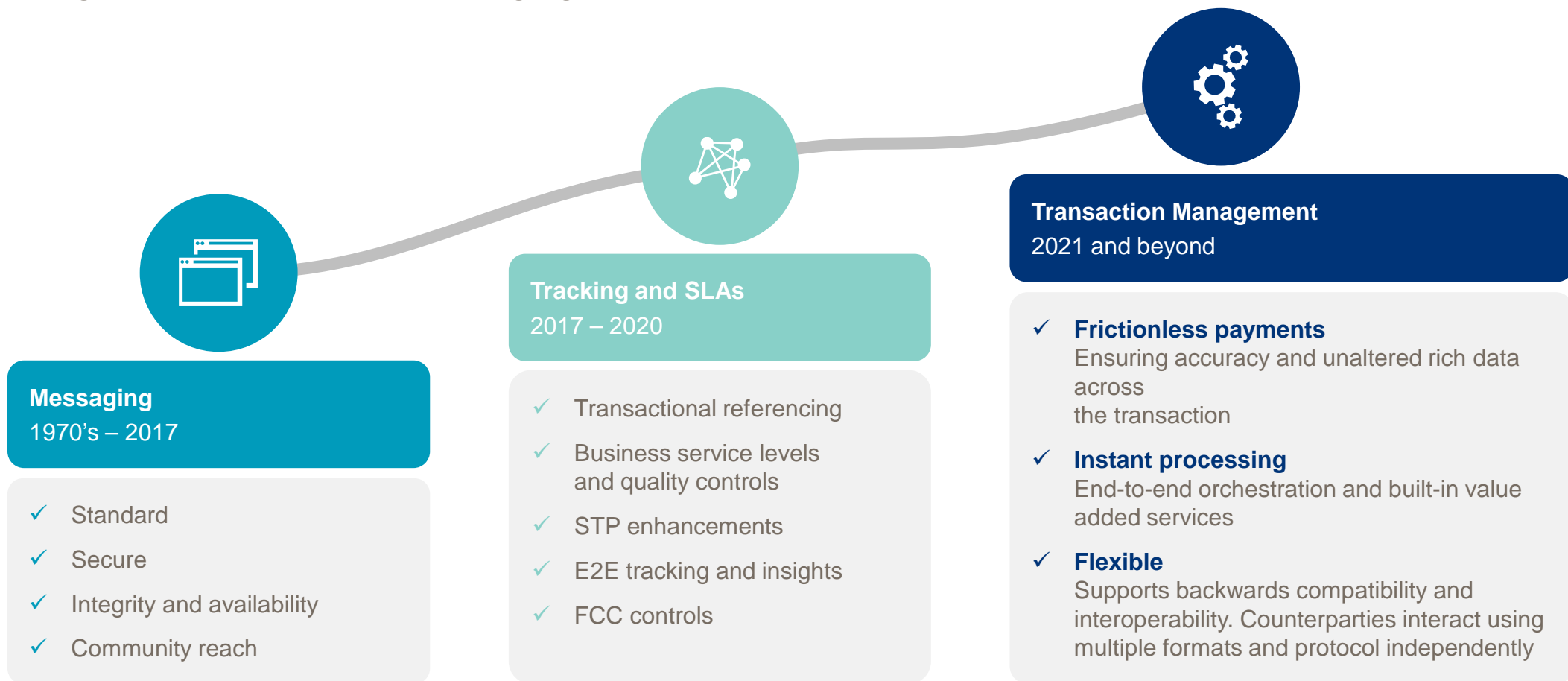
The cost of these inefficiencies have a also significant impact on shareholders, investors and pensioners (sometimes equating to the cost of a luxury car taken from every pensioner's pocket!)

These costs are repeated for all players in the chain and can be **mutualised** for the benefit of the whole industry by a neutral and well-entrenched player



# The journey to transaction management

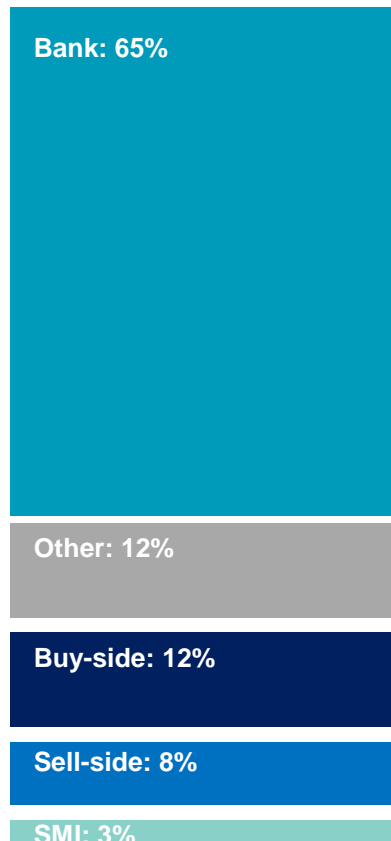
Moving from point-to-point messaging into end-to-end orchestration



# Securities Messaging Users (FIN & InterAct):

**4,930 (+1%)**

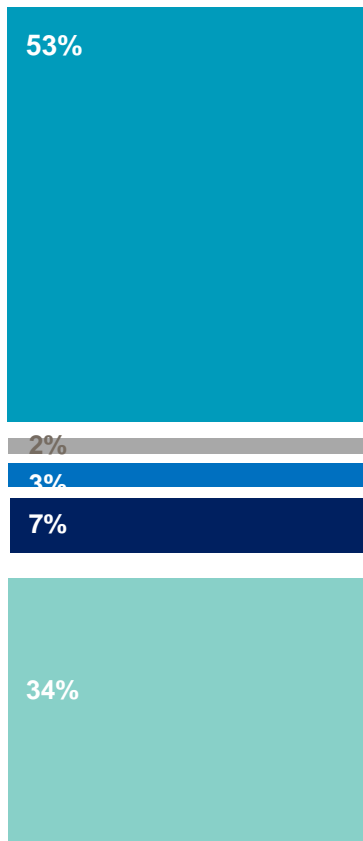
# of BIC8s using securities messages



% # Securities users in the segment / total # securities users

**26 MM (+10%)**

Avg. Daily Messages



% securities traffic by the segment /total securities traffic



Segment		Bank	Buy-side	Sell-side	SMI	Other	Total
# of users using securities messages	# of BIC8 using securities msg.	3,200	571	414	166	579	4,930
	% securities users/total traffic users in this segment	41%	73%	68%	71%	19%	40%
	YoY Change	+1%	-1%	+1%	-1%	+4%	+1%
Avg. Daily securities messages	Avg. Daily Messages	13 MM	0.9 MM	1.9 MM	8.8 MM	0.6 MM	26 MM
	% securities traffic/total traffic sent by this segment	44%	77%	64%	96%	4%	57%
	YoY Change	+10%	+18%	+16%	+9%	+9%	10%

## • # of securities BIC8 users:

- ~ 4,930 BIC8 users were sending securities traffic in 2020 and the user base increased 1% YoY.
- A 1% decrease in # of securities users in Buy-side and SMIs segments mainly due to BIC consolidation.

## • Securities Traffic by segments :

- Bank segment contributed more than 50% of the securities traffic following by SMIs which represent only 3% of total securities users but contributed more than 30% of securities traffic. And 96% of total SWIFT traffic sent by SMIs are securities traffic.
- More than 15% traffic growth in Buy-side and sell-side segments. More than 70% of buy-side and 60% of sell-side users are securities users with more than 60% traffic in securities.

# Key highlights from Capital Markets Business Review

Sources: SWIFT Watch, Oliver Wyman, World Bank

## Looking back at 2020: Industry resilience in coping with post-trade inefficiencies

Covid-19 crisis exacerbated long-standing post-trade **inefficiencies** with spikes in fails and increased manual high-cost activities

...and accelerated the need to address them at Industry level, with **real-time visibility**, **no-touch processes**, **predictability** and **smarter communication mechanisms** in a more and more digitised environment

...while proving **SWIFT's unique value**, in terms of security, resiliency and reach even more critical in crisis context and the relevance of our **Securities Strategy 2022** that aims at tackling above needs

## Preparing 2021: Leveraging 2020 key trends and industry collaboration initiatives

Market **stabilised** in Q3 2020 with industry indicators showing **increase in both revenue growth and operating expenses**

The Securities ecosystem continued to respond to **market shifts** (such as flow compression and re-engineering and mutualised workflow/CSDR solutions) with **investment** despite the sanitary and geopolitics uncertainties

... with an **innovation** capacity that remains high with accelerations (e.g. front-to-back)

... and strong engagement on **co-creation** activities across the Industry (incl. 60+ people across 30+ firms consistently engaged since Q3-2020 in co-designing SWIFT securities strategy)

## Facing 2021 and beyond: Seizing opportunities in a healing and renewing economy

Provided the sanitary crisis is kept under control at global level, the economy is to begin a **subdued recovery**, with China already attracting more inflows. Opportunities will arise for **greener investment services**, **digital customer experiences** and **alternative assets**.

**Greening the world:** increase in ESG-compliant innovations

**Digital customer-facing technology** to further develop

"Lower-for-even-longer" interest rates and competitive pressure from zero commissions - **alternative assets to attract more investments**

**The deployment of our new SWIFT strategy will help the community face a rapidly changing environment and better cope with unexpected crisis situations**

